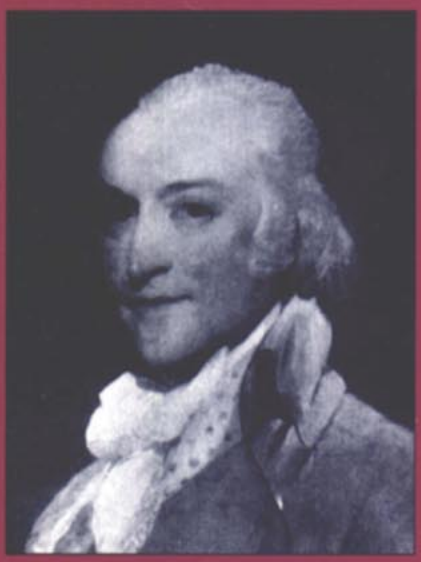
THE FREEMAN

IDEAS ON LIBERTY



John Jacob Astor and the Fur Trade

The Gift of a Child: The Promise of Freedom

Should Profits Be Shared with Workers?

JUNE 1997

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

1997 Summer Seminars At FEE

For the 35th consecutive summer, FEE will conduct its noted seminars in the freedom philosophy and the economics of a free society. Here, in the company of like-minded individuals, with experienced discussion leaders, and in a setting ideal for the calm exchange of ideas, is an opportunity for those who believe that the proper approach to economic problems is through the study of individual human action. These seminars continue to attract individuals from all walks of life who seek a better understanding of the principles of a free society and are interested in exploring ways of presenting the case more convincingly.

Each seminar will consist of 30 hours of classroom lectures and discussions in economics and government. In addition to the regular FEE staff, there will be a number of distinguished visiting lecturers.

The FEE charge for a seminar—tuition, supplies, room and board—is $400. A limited number of fellowships are available. We especially encourage the application of high school and college teachers or administrators, but all are invited.

Individuals, companies, and foundations interested in furthering this educational enterprise are invited to sponsor students and assist with the financing of the fellowship program.

The formal announcement giving details of the seminars will be sent immediately on request.

First Session: July 13-18, 1997

Second Session: August 10-15, 1997

Write: Seminars, The Foundation for Economic Education, 30 South Broadway, Irvington-on-Hudson, NY 10533; or Fax: (914) 591-8910. E-mail: freeman@westnet.com.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

June 1997 Vol. 47, No. 6

THE FREEMAN

IDEAS ON LIBERTY

FEATURES

324 **John Jacob Astor and the Fur Trade: Testing the Role of Government** *by Burton W. Folsom, Jr.*
Why government-supported companies so often fail—and why entrepreneurs tend to provide better products at lower costs.

330 **Three Fallacies of Rent Control** *by Robert Batemarco*
Countering erroneous economic arguments.

333 **Should Profits Be Shared with Workers?** *by Dwight R. Lee*
The empty promises of profit-sharing.

339 **First, Let's Deregulate All the Lawyers** *by George C. Leef*
The economic and moral case for eliminating professional licensing of attorneys.

344 **The Pervasive Duty to Rescue** *by Donald J. Kochan*
The dangers of coerced benevolence.

347 **The Mont Pelerin Society's 50th Anniversary** *by Greg Kaza*
A milestone in the history of classical liberalism.

352 **Russell Kirk's Conception of Decadence** *by Gleaves Whitney*
Do all roads lead to Avernus?

360 **The Gift of a Child: The Promise of Freedom** *by Clark Durant*
Creative approaches to learning, teaching, and schooling.

365 **Insurance "Redlining" and Government Intervention** *by Gary Wolfram*
The market isn't the problem and regulation isn't the cure.

370 **Frederic Bastiat, Ingenious Champion for Liberty and Peace** *by Jim Powell*
The enduring eloquence of the author of *The Law* and other cherished works.

COLUMNS

Center *NOTES from FEE*—**The Unique Role of FEE** *by Donald J. Boudreaux*

337 *IDEAS and CONSEQUENCES*—**The Futility of Class Warfare** *by Lawrence W. Reed*

357 *POTOMAC PRINCIPLES*—**The Liability Lottery: Politics by Other Means** *by Doug Bandow*

383 *ECONOMICS on TRIAL*—**Wards of the State?** *by Mark Skousen*

DEPARTMENTS

322 **Perspective**—Jacques Ellul; Sally von Behren

385 **Book Reviews**

•**What It Means to Be a Libertarian: A Personal Interpretation** by Charles Murray, reviewed by Doug Bandow; **1997 Index of Economic Freedom** by Kim R. Holmes, Bryan T. Johnson, and Melanie Kirkpatrick, reviewed by George C. Leef; **The Welfare State: No Mercy for the Middle Class** by John McKay, reviewed by Murray Sabrin; **The Political Racket: Deceit, Self-Interest and Corruption in American Politics** by Martin L. Gross, reviewed by William H. Peterson; **The Road to Hell** by Michael Maren, reviewed by Laurence M. Vance.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone (914) 591–7230 FAX (914) 591–8910
E-mail: freeman@westnet.com
FEE Home Page: http://www.fee.org
President: Donald J. Boudreaux
Managing Editor: Beth A. Hoffman
Guest Editor: George C. Leef

Editor Emeritus
Paul L. Poirot
Lewisburg, Pennsylvania

Book Review Editor
George C. Leef
Adjunct Professor of Law and Economics, Northwood University

Editorial Assistant
Mary Ann Murphy

Columnists
Doug Bandow
Cato Institute, Washington, D.C.
Lawrence W. Reed
Mackinac Center for Public Policy Midland, Michigan
Mark Skousen
Rollins College, Winter Park, Florida

Contributing Editors
Charles W. Baird
California State University, Hayward
Peter J. Boettke
New York University
Clarence B. Carson
American Textbook Committee Wadley, Alabama
Thomas J. DiLorenzo
Loyola College, Baltimore, Maryland
Joseph S. Fulda
New York, New York
Bettina Bien Greaves
Resident Scholar, FEE
John Hospers
University of Southern California
Tibor R. Machan
Auburn University
Ronald Nash
Reformed Theological Seminary
Edmund A. Opitz
Chatham, Massachusetts
James L. Payne
Sandpoint, Idaho
Jim Powell
Westport, Connecticut
William H. Peterson
Adjunct Scholar, Heritage Foundation, Washington, D.C.
Jane S. Shaw
PERC, Bozeman, Montana
Richard H. Timberlake
University of Georgia

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

Copyright © 1997 by The Foundation for Economic Education. Permission is granted to reprint any article in this issue, except "Frederic Bastiat," provided credit is given and two copies of the reprinted material are sent to FEE.

The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $30.00 or more receive a subscription to *The Freeman.* Student subscriptions are $10.00 for the nine-month academic year; $5.00 per semester. Additional copies of this issue of *The Freeman* are $3.00 each. For foreign delivery, a donation of $45.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

PERSPECTIVE

The Great Illusion

At present, the greatest problem is the citizen in the clutches of political power. . . .

To think of everything as political, to conceal everything by using this word (with intellectuals taking the cue from Plato and several others), to place everything in the hands of the state, to appeal to the state in all circumstances, to subordinate the problems of the individual to those of the group, to believe that political affairs are on everybody's level and everybody is qualified to deal with them—these factors characterize the politicization of modern man and, as such, comprise a myth. The myth then reveals itself in beliefs and, as a result, easily elicits almost religious fervor. We cannot conceive of society except as directed by a central omnipresent and omnipotent state. What used to be a utopian view of society, with the state playing the role of the brain, not only has been ideologically accepted in the present time but also has been profoundly integrated into the depths of our consciousness. To act in a contrary fashion would place us in radical disagreement with the entire trend of our society, a punishment we cannot possibly accept. We can no longer even conceive of a society in which the political function (on the part of the governmental authority) would be limited by external means: we have arrived at the monistic idea of power that stops power. We can no longer conceive of a society with autonomous "in-between" groups or diverging activities. The primary role of political affairs is one of the common sociological presuppositions shared by all and growing in all countries.

We consider it obvious that everything must be unreservedly subjected to the power of the state; it would seem extraordinary to us if any activity should escape it. The expansion of the state's encroachment upon all affairs is exactly paralleled by our conviction that things *must* be that way. . . . To repeat: it is not just the fact of the state being at the center of our lives that is crucial, but our spontaneous and personal acceptance of it as such. We believe that for the world to be in good order, the state must have all the powers. . . .

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The conviction that the individual's inner conflicts, like the external realization of values, are a collective and social affair and will find their solutions in the political realm is only the mystifying aspect of every man's personal surrender with respect to his own life. Because I am incapable of doing good in my own life, I insist that the state must do it in my place, by proxy. Because I am incapable of discerning the truth, I ask the government to discern it for me; I thus free myself of an onerous task and get my truth ready-made. Because I cannot dispense justice myself, I expect a just organization to exist which I only have to join to safeguard justice. . . .

But, it might be objected, is the politically interested citizen not eager to see power controlled, rather than to see its growth further promoted? This is a great illusion. The more an individual has become politicized, the more he will see and think about all problems as political problems, the more importance will he attach to political action, and consider it the only possible course and, by his attitude, endow that course with a maximum of power and effectiveness. At the same time, the more politicized he is, the more will he be focused on and oriented toward that basic political force and form: the state. The more he takes recourse to the state, the more power he gives it. . . . At each step, state power is increased. The people under the spell of politics seek less and less to control the state; politicizing everything, they consider it normal that the state should constantly expand its area of action and use ever more instruments of power. This is legitimate in their eyes, as they believe that all will be solved by political action.

—JACQUES ELLUL, *The Political Illusion*
(Alfred A. Knopf, Inc., 1967)

Donald J. Boudreaux Elected FEE President

We are pleased to welcome Dr. Donald J. Boudreaux as the new president of the Foundation for Economic Education. Dr. Boudreaux was elected at the Annual Meeting of FEE's Board on May 19, 1997.

At the May meeting we also bade farewell to retiring president Hans F. Sennholz, who did so much to revitalize FEE during his five-year tenure. The Board is grateful for the tireless dedication and service of Dr. Sennholz and his wife, Mary. We hope he will find time during his busy retirement in Pennsylvania to write for *The Freeman*.

Don Boudreaux continues FEE's tradition of excellence and energetic leadership. He earned an M.A. in economics from New York University, a Ph.D. in economics from Auburn University, and a J.D. from the University of Virginia School of Law. He has taught at George Mason University, and, since 1992, at Clemson University, as an associate professor in the Legal Studies Group. He was a John M. Olin Visiting Scholar at Cornell Law School for the 1996 spring term.

Don has an impressive list of scholarly publications, including articles in the *Cato Journal*, *Southern Economic Journal*, *The Independent Review*, and several law reviews. He is a long-time contributor to *The Freeman* and was guest editor of the July 1995 issue. Don's writings have also appeared in the *Wall Street Journal*, the *Washington Times*, *Reason*, *The Free Market*, and many other newspapers and magazines. In addition to his classroom teaching and his writing, he has found time to serve as an associate editor of *The Independent Review*, as book review editor of *Constitutional Political Economy*, and as a lecturer at many seminars for college students and high-school teachers and students.

We are enthusiastic about the future of FEE under Don's capable direction. To learn more about his vision for FEE, please see his inaugural *Notes from FEE* in this month's issue.

—SALLY VON BEHREN
Chairman of the Board

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

John Jacob Astor and the Fur Trade: Testing the Role of Government

by Burton W. Folsom, Jr.

What was the first industry in U.S. history to receive a federal subsidy? That dubious honor seems to go to the fur trade. If we study the story of the fur trade, we can see why government-supported companies so often fail and why entrepreneurs tend to provide better products at lower costs.

The buying and selling of furs was a major industry in America throughout its early history. The key animal in the fur trade was the beaver, whose pelt made hats that were in style all over Europe in the 1700s. The fur trade was a worldwide enterprise. It linked fashionable women in Paris to New York exporters, to frontier traders, to Indian trappers. The pelts of beavers, muskrats, otters, and minks went one way and kettles, blankets, axes, and muskets went the other.

At first, fur trading in the United States followed established patterns. The French and British had traded with the Indians for more than a century and the Americans simply picked up where they left off. Trapping methods, river routes, and trading posts were all in place.

The man who confounded the normal development of private enterprise in furs was none other than President George Washington. Washington feared that the many British fur traders along the Canadian border might stir up the Indians, win their loyalties, and thwart U.S. expansion into its own territory.

Private American traders, Washington argued, were too small to compete with larger, more experienced British enterprises. The U.S. government itself was needed to build large trading posts, oust the British, "bring in a small profit, . . . and fix them [the Indians] strongly in our Interest." The Indians especially needed to see evidence of American strength, so Washington recommended that the government build and operate a series of fur factories throughout the American South and West. With Washington's support, Congress appropriated $50,000 for the new factories in 1795 and raised it steadily in later years to a total of $300,000. Such a subsidy was a large expense for a new nation, and one that tested government's ability to act as an entrepreneur.

Here is how the factory system worked. The government created a bureaucracy—the Office of Indian Affairs—to conduct the fur

Professor Folsom is senior fellow in economic education at the Mackinac Center for Public Policy in Midland, Michigan.

For readers interested in learning more about Astor and McKenney, the author recommends John Denis Haeger, John Jacob Astor: Business and Finance in the Early Republic *(Detroit: Wayne State University Press, 1991); and Herman J. Viola,* Thomas L. McKenney: Architect of America's Early Indian Policy, 1816–1830 *(Chicago: Swallow Press, 1974).*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

trade. It used the $300,000 from Congress to set up trading posts (usually near military forts), stock them with goods, and pay agents to buy, store, and transfer furs from the trading post to Washington, D. C., where they would be sold at auction. Once the factories were funded, they were supposed to be self-supporting, and perhaps, as Washington said, "bring in a small profit." Agents in the factories would use the first batch of goods to buy furs; then when the furs were sold, the agents could buy more goods and repeat the cycle.

Thomas McKenney and the Office of Indian Affairs

Almost from the start, however, the factory system struggled. Well into the 1800s, the British companies were trading actively throughout the Great Lakes area. So were private American traders. The factories were so poorly run that many Indians held them in contempt and refused to trade there. In 1816, President Monroe appointed Thomas McKenney, a Washington merchant, to take charge of the Office of Indian Affairs and help the factories expand their business.

McKenney worked hard and took his job seriously. He wrote long letters to Indians, invited them to Washington, and tried to expand his staff so he could deal with them more directly. Indians needed to be assimilated into American life, McKenney argued. Schools and farms, not trapping and hunting, were McKenney's vision for future Indian life. Therefore, he stocked the factories with hoes, plows, and other farm equipment. An active government, McKenney believed, was the best means to "amend the heads and hearts of the Indian."

McKenney's ideas proved to be a disaster. Indians wanted rifles and kettles, not hoes and plows. But since McKenney was funded regularly each year by government, regardless of his volume of trade, he had no incentive to change his tactics. Private traders, however, had to please Indians or go broke. As private traders grew in numbers and wealth in the early 1800s, one of them, John Jacob Astor, grew so rich he surpassed the government factories in capital, influence, and volume of business.

John Jacob Astor: Risk-Taker and World Trader

Astor, the son of a German butcher, came to the United States in 1784 at age 20 to join his brother in selling violins and flutes. Soon, however, he changed his tune. He became fascinated with the fur trade and studied it day and night. He learned prices, markets, and trade routes for all kinds of pelts. The fur territory—New York, Montreal, and the American Northwest—he traveled and mastered. Astor bought and sold cautiously at first, then with more confidence as the profits rolled in.

He was an odd man to be such a risk-taker. He was quiet, almost secretive, in his business dealings. Astor had a keen mind for enterprise, but he spent years at a time out of the United States, estranged from his wife and fighting bouts of depression. He was both decisive and patient. He had a vision of how America would grow, how the fur trade fit into that growth, and how to market furs around the world. With commanding vision and masterful detail he could profitably buy furs in Michigan, pack them on a boat to New York, ship them to China, and bring tea back home.

Astor separated himself from others through his foresight and perseverance. If the matrons of France wanted beaver hats and otter coats, and if these animals roamed the forests of New York, that was all most traders cared to know. Astor, however, thought more of world trade. Europeans liked to fight each other and wars disrupted markets; why not expand and sell furs to the Chinese—not for fashion, but for warmth in their unheated houses? Besides, he could bring the tea back from China and profit at both ends.

The large market of the Far East prompted Astor to turn his sights west to Michigan. New York and the Atlantic Coast were depleted of furs by the early 1800s. The Great Lakes area—especially the Michigan Territory—then became the heart of the fur trade, and yielding thousands of skins for coats and rugs all over the world. Astor founded the Amer-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ican Fur Company in 1808 and made his move to challenge the government factories.

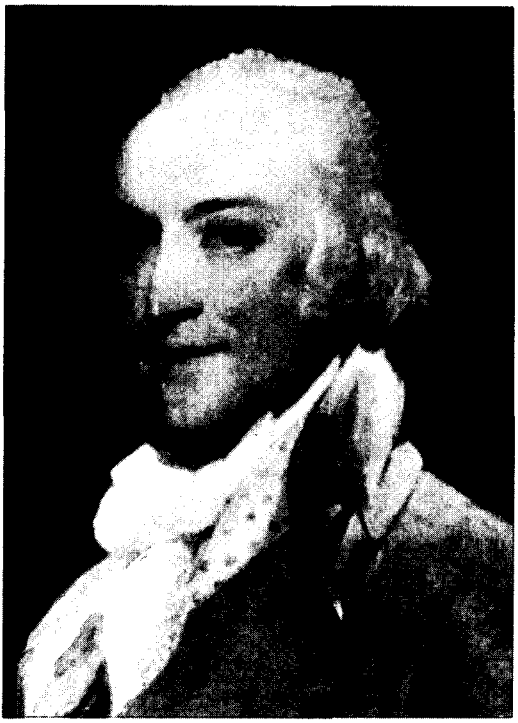
Under Astor, the American Fur Company resembled a modern corporation with specialists, division of labor, and vertical integration. Astor ran the company from his headquarters in New York. Mackinac Island was the center of the actual trading, where most furs were bought, packed on boats, and sent to the East Coast. Astor's agents dotted the rivers throughout the Northwest and they had log cabins well-stocked with goods. They supplied the company's fur traders, who would live with the different Indian tribes and supply them with goods and credit as needed.

Astor's Advantage

In conducting business this way, Astor differed from McKenney and the government factories. McKenney and his predecessors just built trading posts, stocked them with goods, and expected the Indians to come there to trade. Many Indians, however, lived hundreds of miles from a factory and had no supplies to trap with. Even if McKenney had given credit easily, and had known whom to trust, the Indians would have been hampered by distances. Under Astor's system, the fur traders lived with the Indians, learned whom to trust, and bought and sold on the spot. If an Ottawa brave capsized his canoe and lost his musket and powder, he could get replacements from Astor's local trader and avoid the 90-mile walk through swirling snow to see if the government agent in Detroit would give him replacements on credit.

Astor built on this advantage by trading the best supplies he could find at reasonable rates of exchange. Indians wanted guns and blankets, for example, and Astor supplied them at low cost. The best blankets he could find were British-made blue-striped blankets, and Astor bought them at 15 percent less than McKenney paid for lower quality blankets made in America. Astor bought British Tower muskets, the best on the market, for about $10 apiece, but McKenney paid $12.50 apiece for Henry Deringer's muskets made in Philadelphia.

One reason Astor succeeded was that he



John Jacob Astor (1763–1848)

accepted the Indians as they were, not as he wanted them to be. If they desired axes, kettles, and muskets, he tried to find the best available and sell to them at competitive prices. He respected Indians as shrewd traders and knew he had to have the best goods to get the most business. McKenney, as we have seen, squandered government resources on goods Indians didn't want.

McKenney refused to sell liquor in government factories and urged Indians to be sober, virtuous, and industrious. "The same devotion to the chase, and those irregular habits which have characterized the sons of our forests yet predominate," he lamented.

Liquor was also an item Astor preferred not to supply, even though he knew many Indians wanted it. Not that Astor was a moralist; he was a realist. Drunken trappers gathered no pelts, he discovered. If the factories had been his only competition he probably wouldn't have traded liquor at all. But the traders with Britain's Hudson's Bay Company carried so much liquor they could almost have created another Great Lake with it. Astor thus concluded that for him to be competitive he needed to have some liquor available for trade.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Motivation and Marketing

Trade was not the only area where Astor outmaneuvered the government factories. The motivating of men was another. Astor used a merit system and paid his chief managers good salaries plus a share of the profits. This guaranteed an attention to detail, which Astor needed to stay on top. McKenney and his staff, by contrast, received a standard salary from Congress with no bonuses given in profitable years or cuts given when trade fell.

One final area of Astor's genius was his marketing savvy. He sold his furs at auctions all over the world. If he didn't get the prices he wanted in New York he sent furs to auctions in Montreal, London, Hamburg, and Canton. McKenney, by contrast, had the furs collected in his factories sent to Washington. Then he sold them at auction in nearby Georgetown for whatever price they would bring. He didn't sell in different cities, nor did he withhold any from the market in bad years.

Sometime after 1808, John Jacob Astor surpassed the government factories and emerged as the leading exporter of furs in the United States. He widened his lead after the War of 1812. By the 1820s, the American Fur Company employed over 750 men, not counting the Indians, and collected annual fur harvests of about $500,000, which made it one of the largest companies in America.

McKenney nervously watched the government's share of the fur trade decline year by year. "Why do the factories lose money?" Congress asked when McKenney came before them each year to renew his subsidy. He was embarrassed by Astor's dominance and perplexed at what to do about it. At one point, he urged his agents, or "factors" as they were called, to stir up Indians against private traders. "[A]ll correct means that may be taken to expel those traders," McKenney wrote, would be "of service to humanity and justice."

By 1818, McKenney had reached a dramatic conclusion: the best way to beat Astor was to influence Congress to ban all private fur traders. If this could be done, McKenney could monopolize the fur trade, sell the Indians what he wanted them to have, and pursue his dream of amending their heads and hearts. "Armies themselves," McKenney argued, "would not be so effectual in regulating the native Inhabitants as would a state of dependence on the Government for their *commercial intercourse*." Sure, McKenney admitted, a monopoly "embraces the idea of compulsion." But "the power over the Indians is covetted [sic] only for their good—and also to prevent them from doing harm."

John C. Calhoun, Secretary of War and later vice president, was swayed by McKenney's ideas. "The trade should," Calhoun wrote, "as far as practicable, be put effectually under the control of the Government, in order that . . . [the Indians] may be protected against the fraud and the violence to which their ignorance and weakness would, without such protection, expose them."

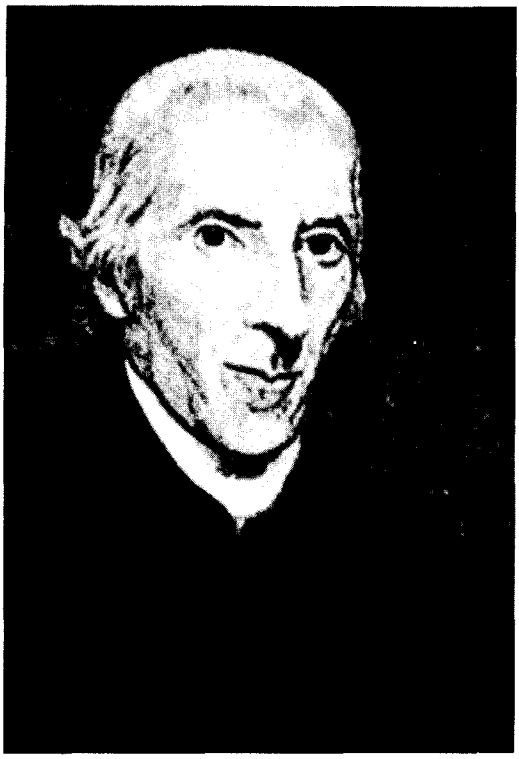
Even with friends in high places, however, McKenney couldn't muster the support in Congress to ban private fur trading. He therefore presented two backup plans. First, the government should increase his subsidy from $300,000 to $500,000. Second, McKenney wanted to increase the license fees for his competitors. If he couldn't ban private fur traders by law, perhaps he could raise their costs of doing business, and thereby improve the competitive position of his factories.

Astor hated to play politics, but he believed he had to be politically shrewd to survive. He wrote President Monroe and explained how the American Fur Company helped the U.S. economy. Other politicians came to Astor's aid. Governor Ninian Edwards of the Illinois Territory challenged Calhoun: "For my part, I have never been able to discover, and I defy any man to specify, a solitary public advantage that has resulted from it [the factory system] in this country."

From 1816 to 1822, Congress heard from both sides and had frequent debates on the fur trade. For both sides, it was a fight to the death. When McKenney's factories showed a drop in fur sales from $73,305 in 1816 to $28,482 in 1819, his case began to weaken.

Astor then took the offensive and urged Congress to abolish the whole factory system. His first step was to get Congress to see how unpopular the factories were with Indi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Jedidiah Morse (1761–1826)

ans. Calhoun, McKenney's ally, unwittingly cooperated when, as Secretary of War, he helped authorize Jedidiah Morse, a neutral observer and Congregational minister, to go into Indian country and report on the Indian trade.

Morse visited most of the government factories and interviewed the men who worked in them as well as the private traders nearby. In his report he came down clearly against the factories. "In the first place," Morse wrote, "I have to observe that the Factory system . . . does not appear to me to be productive of any great advantage, either to the Indians themselves, or to the Government." This conclusion was devastating because it revealed that the factory system had failed to do what Washington set it up to do—impress the Indians, gain their respect, and challenge the British in the Northwest Territory. Morse further wrote that "the Indians, who are good judges of the quality of the articles they want, are of the opinion that the Factor's goods are not so cheap, taking into consideration their quality, as those of private traders."

Morse was not completely pleased with private traders. They traded too much whiskey, he wrote, and they gave Indians too much on credit, which weakened their work ethic. But he couldn't deny their success or the "want of confidence in the Government . . . expressed by the Indians in my interviews with them."

Armed with the Morse report, Astor's allies in Congress moved to abolish the factories in 1822. Thomas Hart Benton, the new senator from Missouri, had been a lawyer for Astor and knew the fur trade well. On the Senate floor he ridiculed McKenney's purchases, particularly the eight gross (1,152) jew's harps he had recently sent to the factories. What use, Benton asked, could Indians have for jew's harps? "I know!" he said sarcastically. "They are part of McKenney's schemes to amend the heads and hearts of the Indians, to improve their moral and intellectual faculties, and to draw them from the savage and hunter state, and induct them into the innocent pursuits of civilized life."

The End of the Factory System

Not surprisingly, Benton urged Congress to end the factory system. Most Congressmen agreed. The Senate voted 17 to 11 to end the factories, and the House soon followed. On May 6, 1822, President Monroe signed Benton's bill.

The closing of the factories was a story in itself. The merchandise inside them was to be collected and sold at auctions around the country. The money received would then be returned to the government to offset the $300,000 federal subsidy. The auctions themselves, which became the true test of the market value of the articles in the factories, brought grim news. The government, on its $300,000 investment, received a return of only $56,038.15. As Senator Benton had said, "The factory system grew out of a national calamity, and has been one itself."

Many Congressmen were astounded at the waste of government funds revealed by the auctions. If Astor could make millions of dollars trading furs, how could the government lose hundreds of thousands? Critics

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

demanded answers and Congress formed a committee to investigate the unprofitability of the factories. They sifted through mountains of records and interviewed lines of witnesses. McKenney was on the spot and had to testify, but the committee found no corruption, just "inexplicable" losses. The factory system just failed, the committee concluded, but it needed to be studied "not only as a matter of curious history, but for the lesson it teaches to succeeding legislators."

Astor, meanwhile, continued to expand and prosper. New companies entered the fur trade during the 1820s and existing ones continued to challenge Astor. The competition was keen and Astor's volume of business varied from place to place. The American Fur Company, however, remained the largest firm in the field after the factories were closed. Astor, better than any American before him, had mastered the complex accounting and organization needed to conduct a worldwide business.

Astor and McKenney: An Epilogue

By the late 1820s and into the 1830s, the fur trade began to decline. Astor always knew the trade couldn't flourish forever—furs were being collected faster than new animals were growing them. Changing tastes slowed down business even more than the scarcity of animals. As Astor noted from Paris in 1832, "they make hats of silk in place of Beaver." Also, the Industrial Revolution and the popularity of cheap, mass-produced clothing shut down markets for furs. "[M]any articles of manufacture which are now very low can be used in place of deer skins & furs," Astor observed in 1823. "[T]hey receive of course the preference." Evidently it didn't occur to Astor to try to get the government to handicap or eliminate his competition.

In 1834, three years before Michigan became a state, Astor quit the fur business and sold the American Fur Company. He was 71 years old and ready to do less strenuous work. The same skills that made him America's largest fur trader also made him profits in New York real estate. For many years, Astor had been buying lots in northern Manhattan, developing the property, and selling it at a profit. This he continued to do. He also invested in the Park Theatre, the Mohawk and Hudson Railroad Company, and the Astor House Hotel. By the time of his death in 1848, he had accumulated America's largest fortune, about $10 million.

The last years of McKenney's life were not so pleasant. Outside of government, he struggled as a businessman, writer, and lecturer. His wife died, and his son became a wastrel. McKenney lived out of his suitcase, borrowing money and moving from city to city. In 1859 he died, at age 73, destitute, in a Brooklyn boarding house. □

At What Price Will The Gold Standard Return?

"Gold isn't just another commodity. Gold is money. Some day an international monetary crisis may rudely awaken us to this reality."
—Mark Skousen, author of **Economics of a Pure Gold Standard**

1797 Half Eagle 5.00 Gold Piece
Uncirculated
Price History
1957 – $700
1967 – $3,800
1977 – $9,500
1987 – $30,000
1997 – $137,500

- Rare Coins
- Expert Advice
- Best Prices

Tom Pilitowski
1-800-524-6321
1-954-979-2640

Special: Certified MS-63 St. Gaudens Double Eagles, $525 each, plus shipping.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Three Fallacies of Rent Control

by Robert Batemarco

From New York to Boston to Toronto, rent control is under attack. Not surprisingly, beneficiaries of this legislated plunder of providers rental housing are sparing no effort to maintain their unmerited privileges. In so doing, they resort to a wide variety of fallacious arguments. Three in particular stand out and will be discussed here.

1. "Rent control may not be needed everywhere, but my city is a special case."

Whole schools of "economic" thought have formed around the idea that all economic principles are special cases with no universal validity. This notion is actually an attack on the very status of economics as a science. As Ludwig von Mises noted, an attack on economics itself is the only way to undermine the irrefutable case that economic analysis makes against all kinds of interferences with the market. "If one tries to refute the devastating criticism leveled by economics against all these interventionist schemes, one is forced to deny the very existence . . . of a science of economics. . . ."[1]

The "special case" argument has been used by partisans of rent control. New York City's rent control regulations are actually codified in legislative enactments of New York State. Recent attempts to weaken, if not eliminate, rent control regulations have been spearheaded by upstate lawmakers. This led New York State Assembly Speaker Sheldon Silver, who represents a Manhattan district, to quip in reference to its housing situation: "I would suggest that New York City is a lot different from Troy."[2] The implication is that while rent control may not be necessary and effective in Troy, it works wonders for New York City. Yet one of the hallmarks of economic law is its universal validity. In this case, whenever government prevents the charging of prices high enough to clear the market, shortages will occur. This is true in New York, in Troy, or in Timbuktu, regardless of whether the market is for rental housing, gasoline, or medical care.

2. "A free market would make housing unaffordable for most people."

The longevity of rent controls has worked to the advantage of its supporters. Most New Yorkers have lived with rent regulation for so long that they have no conception of how the market sets rents in the absence of controls. For the lack of both experience with a free housing market as well as theoretical understanding, they are willing to believe the most ludicrous "horror stories." For instance, Speaker Silver suggests that repeal of rent stabilization laws would drive the middle class out of the city, asserting that "If the rents were tripled it would drive tenants out of the city."[3] My impression is that the period of rent controls has itself been characterized by a massive outflow of middle-class people from the city, which, as theory tells us, is no accident. The very logic of rent control is to make it possible for lower-income people to compete more successfully with the middle class for the limited stock of rental housing.

Furthermore, how can anyone know that rents would triple? There was no tripling of oil

Dr. Batemarco is director of analytics at a marketing research firm in New York City and teaches economics at Marymount College in Tarrytown, New York.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

prices when petroleum was decontrolled. Indeed, the fact that rents are not triple in similar lodgings in neighboring Nassau or Westchester counties, or in New Jersey, or for uncontrolled units within the five boroughs would keep rents from rising to anywhere near those levels. Moreover, had all New York City rents been held to as little as one-third of market levels, the harm done would have been even greater than it in fact was.

In Toronto, where an entrenched rent control law is also under attack, the scare tactics are equally ludicrous. One advocate of Ontario's rent regulations went so far as to assert that a free market would make housing unaffordable for most citizens. If this were true, it would mean that landlords would rather let their property sit idle and generate no income at all than charge affordable rents which would yield them a return on their investment. In a normally functioning market affordable rents would be profitable. The only situation in which they would not be profitable would be if government provided massive subsidies for the construction and maintenance of rental housing and then suddenly cut those same subsidies off. Such subsidies actually would induce suppliers to make more housing services available than consumers could afford. Their cessation would permit consumers to reassert their preferences for less housing and more of other goods and services. As a result, the rents they would be willing and able to pay would no longer yield a profit to landlords. Clearly, however, this would be an example of *government* failure, not market failure.

The idea that there is something sacrosanct about current rents has also permeated the consciousness of most tenant advocates. This belief is predicated on the notion that there is a "just price" independent of all market considerations. Such a view, which reflects lack of understanding of the need for markets to adapt to change may have been understandable (if no more valid) during the Middle Ages when it was developed. However, given the dizzying pace of change in the twentieth-century United States, there is no excuse for it. If anything, its espousal is more an emotional reaction against such change than a reasoned response to it.

3. "Tenants' wishes should be given precedence over landlords' rights."

"Tenants' rights" have often been invoked in support of rent control. The 1994 referendum abolishing rent control in Massachusetts was characterized by one rent control advocate as "the shattering of the tenant rights movement."[4] Legitimate rights, whether those of tenants or of anyone else are all derived from the right of people to dispose of their property in any way they see fit that does not infringe upon the equal right of others to do the same.

An agreement to rent property is a voluntary exchange. Neither party to that exchange has a right to terms that the other does not agree to. Yet precisely such a right is constantly asserted by rent control advocates. Thus, we hear people such as tenant "activist" Bill Rowen saying that without regulation, "Any landlord in New York who doesn't want a tenant would immediately move to do something about it."[5] While such action may not be fair in many cases, in a free society it would be well within the rights of any landlord not bound by contractual arrangements to the contrary. Tenants have no more right to stay permanently in an apartment of a landlord wishing to make a better deal with someone else than an employee has to be kept on the payroll by an employer who no longer finds his services necessary.

Another complaint which is supposed to be a persuasive argument in favor of rent control comes from tenants who say they, "couldn't live in Manhattan without rent control."[6] Since when is living in Manhattan an inalienable right? If it is, do non-renters have a similar right? While I would not exercise an inalienable right to live in Manhattan if I had one, I would much prefer to live in Chappaqua or Irvington than Peekskill where I do live. Does that desire translate into a right? Hardly. In a market order, no one has the right to consume more than he produces. If I wish to consume more housing services by living in a more expensive area, I basically have two choices: consume less of something else or produce more, by taking a second job,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

working hard enough to get promoted on my current job, or switching to a field where what I produce is more valuable to consumers. The frenzied insistence of so many that they deserve better accommodations without taking any of those steps shows how deeply ingrained the desire to get "something for nothing" is in our day and age.

The nature of reality is that we can't always have everything we want. Trade-offs must be made and markets, housing markets no less than others, make those trade-offs clear. Indeed, the fact that markets tell us that some of the trade-offs required mean that some things we want are unobtainable goes a long way toward explaining the antipathy of so many toward markets. Realizing that there is no Santa Claus (who never requires trade-offs) is a big, if painful, step in the maturation process from childhood to adulthood. For believers in rent control, then, it's time to grow up. □

1. Ludwig von Mises, "The Historical Setting of the Austrian School of Economics," in Bettina Bien Greaves, ed., *Austrian Economics: An Anthology* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1996), p. 66.
2. Gregg Birnbaum, "Battle Pits City against Upstate," *New York Post*, December 6, 1996, p. 4.
3. Dan Jamison and Gregg Birnbaum, "Rent Laws Face Eviction Fight," *New York Post*, December 6, 1996, p. 4.
4. Lester Lee, "The Shattering of the Massachusetts Tenants Rights Movement," *New England Peacework*, 264, June 1996.
5. Jamison and Birnbaum, p. 5.
6. Frankie Edozien and Bryna Taubman, "Both Sides Have Their Horror Stories," *New York Post*, December 6, 1996, p. 30.

HAD ENOUGH?

Had enough of the liberal bias in the popular news media? Had enough of "donating" an increasing amount of what you earn to support inefficient, bloated social programs? Had enough of watching our culture degenerate before your eyes? Do you feel like a stranger in an increasingly strange land?

If you answered "yes" to any of the above questions, then you will be interested in a bold, intelligent new magazine, ***The Social Critic.*** No, you won't find "inside-the-Beltway" gossip in this magazine. What you *will* find is vital social and political commentary by great social critics such as Dr. Charles Baird, Director of The Smith Center for Private Enterprise Studies. ***The Social Critic***—a vital conservative resource now in bookstores across America.

http://www.socialcritic.com

The Social Critic

Introductory Offer: 14% off the newsstand price.

One-year (six issues) subscription: $18.00
Two-year subscription: $ 34.00 **(19% off the newsstand price)**

Please make check or money order payable to:
The Social Critic

Name _____
Address _____
City _____ State _____ Zip _____

Mail to: The Social Critic
31121 Mission Blvd., Suite 301
Hayward, CA 94544

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Should Profits Be Shared with Workers?

by Dwight R. Lee

When most people argue that firms should share profits with workers, they are not interested in the general distribution of business receipts.[1] Rather, they are pointing to firms experiencing exceptionally high profits and claiming that fairness requires that most of those profits be passed on to workers. For example, management consultant Alfie Kohn states, "If a company has had a profitable year, I see no reason those gains should not be distributed to the employees; after all, their work is what produced the profits."[2]

At a superficial level, it may seem only right that when a firm is doing well, its good fortune should be shared with the workers who made it possible. And, indeed, workers do benefit when their firms are profitable and expanding because their jobs are more secure and opportunities for promotion are greater. But shouldn't firms making high profits directly share some of those profits with their workers by increasing their wages much more than in leaner times? Workers and their union representatives are frequently quick to use high profits as justification for demanding large wage increases, but is it wise to acquiesce?

It is generally true that those fortunate enough to work for highly profitable firms receive higher wages than those who work for barely profitable firms.[3] But this is not the same as a firm giving its workers a large wage increase whenever it experiences a large profit increase. Firms seldom do this for reasons of efficiency, fairness, and the best interests of their workers.

Efficiency

Consider first the efficiency of sharing profits with workers. Although many people see profits as nothing more than rich people accumulating more wealth, profits serve a vital function in creating wealth by allowing consumers to communicate how they want scarce resources allocated among competing productive activities. A firm earning a large profit is using resources to create more value (as measured by what it sells its output for) than those resources could create elsewhere in the economy (as measured by what the firm has to pay for its inputs). The total value of production can then be increased, with the same use of resources, by reallocating resources to highly profitable firms and away from less profitable firms elsewhere in the economy. And this is exactly the reallocation of productive resources financed and motivated by high profits. Firms typically reinvest high profits right back into the productive activity that generated them by bidding resources, both human and non-human, away from less profitable activities. Output expands in the high-profit firms (driving their rate of return down) and contracts in the low-profit firms (driving their rate of return up) until

Dr. Lee is Ramsey Professor of Economics at the University of Georgia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

additional inputs are worth no more in the former than in the latter.

This efficient reallocation would be impossible if a firm that began making high profits, say because of an increase in the demand for its product, used those profits to increase the wages of its workers. Firms are forced by competition to pay their workers at least as much as they are worth in their best alternative employments. If a firm devoted its high profits to paying its current workers more than is justified by their productivity, it would be unable to attract the additional resources it needs to expand. The workers receiving the higher wages would be obviously better off in the short run, but their gains would be more than offset by the losses (forgone opportunities) suffered by others in the economy.

Fairness

Quite apart from the adverse effects on efficiency, paying workers higher wages when the profits of the firm they work for are high forces firms to behave in ways that will be widely seen as unfair. If, because of high profits, a firm offers wages well in excess of their opportunity cost (the amount needed to attract workers with the appropriate skills from other employments), more people will want to work for that firm than it can afford to hire. This creates a situation where firms find themselves having to choose workers on the basis of non-economic considerations. Regardless of how firms make those choices, they will be criticized for practicing favoritism and unfair discrimination by those who are not chosen, and maybe with justification. Certainly the fairest approach, and the one that penalizes discriminating on non-economic grounds, is to give all workers the opportunity to compete for jobs on the basis of their productive ability. This opportunity is denied to most workers when some are being paid more than their productivity warrants.

But even those who would get large wage increases because they work for firms creating high profits would probably not benefit from a policy of sharing in those profits, and certainly not if the policy were fairly implemented. If workers receive large wage increases when their firm is making large profits, then fairness would require that they also receive wage cuts when profits decline. Indeed, if workers favored a consistent policy of sharing in the profits, then they should be prepared to give money back (receive negative wages) when their firm (as firms often do) loses money. But workers obviously would not be happy with such a policy. It would expose them to all the risks that confront the owners of the firm, risks that few workers are willing to bear. People willing to accept large risks typically start their own businesses, or invest in businesses that others start, in return for a higher average, but very uncertain, return. Workers are typically more risk averse, as evidenced by the fact that they choose to work for others for a lower average, but more certain, return in the form of a fixed salary or wage.

Of course, some firms have attempted to motivate workers to be more productive through arrangements that give them some ownership in the firm. But these plans are not what those calling for sharing high profits with workers have in mind, since they can impose losses on workers when profits decline. For this reason, these profit-sharing plans are not widespread. Furthermore, when they do exist, profit-sharing plans are typically rather limited because even under the best of circumstances they do little to motivate workers to be more productive.

The Free-Rider Temptation

Profit-sharing arrangements are easily frustrated by the free-rider temptation. Although it is *collectively* rational for all employees to work harder in response to profit sharing, it is not *individually* rational to do so. Each worker will recognize that if others work harder, that he will reap the benefits from higher profits without extra effort. Each worker also recognizes that if others don't work harder, then his share of the additional profit generated by extra effort is too small to be worth the effort.

For example, assume that there are 1,000 workers in a firm, each earning $15.00 per hour. Also assume a profit-sharing plan is established that would increase total worker productivity, and therefore worker compen-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Unless workers are willing to take the losses that are inevitable in business activity, as well as the gains, the argument that fairness requires that workers share in the profits of their firms is an empty one.

sation, by $40,000 per week if all workers reduce their shirking on the job by one hour per week. This is clearly a good deal for the workers, since each one stands to receive $40 for putting in just one more hour of genuine effort. But consider the payoff each individual would realize from his decision to shirk an hour less. The individual who puts in one more hour of work would be responsible for increasing total compensation by $40 (assuming that each individual's impact on productivity is the same as everyone else's, and independent of what others do). But since the additional $40 is spread over all 1,000 workers, his share, in the form of higher wages is only $.04. How many would be willing to give up an hour of on-the-job leisure for $.04? At that hourly rate a person would have to work an entire 40-hour week to make enough to buy a small box of popcorn at the movies.

So having workers share consistently in the profits of their firm is not a policy many workers would find attractive. Such profit-sharing arrangements do little to motivate more productive effort, while imposing risk on workers that few are comfortable accepting. This explains why profit-sharing arrangements are often short-lived.

Consider the experience of Du Pont's fibers division. In 1988, Du Pont began an incentive pay plan for its fibers division workers. Workers were to commit some of their annual pay increases to an "at risk pot" until it contained 6 percent of their annual compensation. They were to share in the profits through bonuses based on how well the division did compared to a target of a 4 percent real growth in profits. If, for example, profits increased by 5 percent, then workers would be paid the 6 percent of the pay they contributed plus another 6 percent. If profits increased by 6 percent, workers would be paid their 6 percent plus the maximum bonus of 12 percent. On the other hand, if the division just made its profit target of 4 percent, the workers would get just their 6 percent back, with no bonus. And if the division's profits fell to 80 percent or less of its profit target, then the workers lost the 6 percent of the pay they put at risk.[4]

Even though the risk the Du Pont plan imposed on its workers was less than a complete profit-sharing plan would have imposed, some workers expressed concern about gambling with a significant amount of their annual pay before the plan went into effect.[5] This concern was temporarily disregarded, however, when in 1989 profits exceeded the target and workers received $19 million in bonuses. Few people complain about the risk when they are holding a winning hand. But in the 1990 recession, the fibers division's profits were not meeting the target and workers were going to lose some of their at-risk pay under the incentive pay plan. The prospect of this loss did not sit well with the division's 20,000 workers, most of whom took something other than an entrepreneurial attitude toward the downside of risk. Faced with complaints and problems with worker morale, Du Pont canceled the incentive plan, letting the workers avoid the type of loss that those who want to share in profits have to be willing to accept.[6]

More recently, Wal-Mart Stores has experienced some difficulties with its profit-sharing plan. Probably no other U.S. company has used stock incentives more than Wal-Mart to motivate hard work and loyalty from its workers. And for years it worked as Wal-Mart stock steadily increased in value (100 shares of Wal-Mart stock, which cost $1,650 in 1970 when it first went public, were worth $3.5 million in February 1993). But then the stock

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

experienced a decline, going from $34.125 a share in February 1993 to $20.875 on the first trading day in 1995. During this decline, the profit-sharing plan became a source of worker complaints and demands for more pay and union representation. As reported in the *Wall Street Journal*, "The world's largest retailer is also discovering the risks in a profit-sharing plan heavily invested in its own stocks."[7]

Unless workers are willing to take the losses that are inevitable in business activity, as well as the gains, the argument that fairness requires that workers share in the profits of their firms is an empty one. Many workers, and their representatives who call for sharing profits with workers, seem to believe that fairness means "Heads I win, tails you lose." All workers are better off, and treated more fairly, when most profits are retained by firms to expand the production of goods and services that consumers are communicating with those profits that they want more of. □

1. At one level the answer to the question in the title of this paper is, of course profits should be shared with workers. The only durable source of compensation for any worker (whether in the private or public sector) is the revenue earned by profitable businesses. Indeed, by a wide margin, most of the national income goes to pay workers. In 1994, for example, employee compensation made up 73.4 percent of the national income, with corporate profits coming to 9.9 percent and proprietors' and rental income (not all of which can be counted as business profits) amounting to 9.2 percent. The rest of the national income in 1994, or 7.5 percent, went to net interest. These figures are found on page 39 of Herbert Stein and Murray Foss, *The New Illustrated Guide to the American Economy* (Washington, D.C.: The American Enterprise Institute Press, 1995).

2. See page 183 of Alfie Kohn, *Punished by Rewards* (Boston: Houghton Mifflin Company, 1993).

3. This does not necessarily mean, however, that highly profitable firms are more generous in sharing profits with their workers than are less profitable firms. More likely, highly profitable firms are paying higher wages to attract workers more skilled than those working for less profitable firms.

4. For more details on the plan, see Nancy L. Perry, "Here Come Richer, Riskier Pay Plans," *Fortune*, December 19, 1988, pp. 50–58.

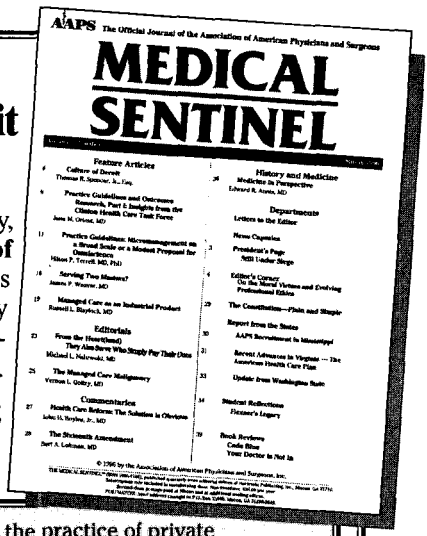
5. See "All Eyes on Du Pont's Incentive Pay Plan," *Wall Street Journal*, December 5, 1988, p. A-1.

6. Richard Koenig, "Du Pont Plan Linking Pay to Fibers Profit Unravels," *Wall Street Journal*, October 25, 1990, p. B-1.

7. See Bob Ortega, "What Does Wal-Mart Do If Stock Drops Cuts Into Workers' Morale?" *Wall Street Journal*, January 4, 1995, p. A1.

"A fabulous journal... a beacon of hope and intellectual pursuit in medical journalism..."

The ***Medical Sentinel*** is the official, quarterly, peer-reviewed journal of the **Association of American Physicians and Surgeons.** The AAPS is the national physician organization that successfully sued the Clinton Administration over the secret dealings of Hillary Clinton's Health Care Task Force. Jane M. Orient, M.D., Executive Director, AAPS; Miguel A. Faria, Jr., M.D., Editor-in-Chief, ***Medical Sentinel.***


AAPS The Official Journal of the Association of American Physicians and Surgeons
MEDICAL SENTINEL

"The ***Medical Sentinel*** is committed to...defense of the practice of private medicine, the tenets and principles set forth in the Oath of Hippocrates, individually based medical ethics, and the sanctity of the patient-doctor relationship...dedicated to the pursuit of liberty, free markets, and integrity in medical research...."

Call 1-800-757-9873

Subscription **$35.00**

Hacienda Publishing

ISSN Number 1086-4784

Fax: 1- 912-757-9725 • P.O.Box 13648• Macon, GA• 31208-3648

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Futility of Class Warfare

With the collapse of socialism both as a theory and as a practical system of economic organization the world over, one might expect the rhetoric of class warfare to subside as well. But class warfare is alive and well in prominent academic circles and the mainstream national media.

It's a familiar refrain: capitalism is doing itself in by concentrating wealth in the hands of a few. Saving the system from its own sins requires an activist government to intervene to make sure more people get their share of the economic pie.

In a recent issue of *America* magazine, Jeffrey R. Gates bemoans the fact that too many Americans have too little wealth. The solution, he says, is for the government to devise a grand plan, a "national ownership strategy" that will spread the people's wealth around according to some centrally planned formula.

Imagine that. The same government that can't manage its own fiscal affairs, that squanders billions of other people's dollars in subsidies for corporations and foreign regimes, that wasted a trillion more in a counterproductive war on poverty, is now supposed to preside over what Mr. Gates calls a "national ownership strategy" for the American people.

Gates cites, among other sources, a 1995 study of New York University professor Edward Wolff, who argued that wealth is more concentrated in the hands of a few than at any time since the 1920s. Wolff's study was severely flawed, however, because of its false assumptions and many omissions. For example, it gave little attention to the shifting patterns within income categories.

In an economy with great mobility, people simply do not remain in the same top and bottom income categories over time. Treasury Department data show that of the U.S. households in the bottom one-fifth of incomes in 1979, only 14 percent remained there by 1988. Meanwhile, 35 percent of 1979's top one-fifth had fallen from the top by 1988.

Wolff's study found a widening gap in the distribution of wealth in part because, amazingly, it excluded the value of pension plans! When wealth is measured more broadly, as it should be, to include pension benefits, home equity, and autos, the "wealth gap" reduces to a tempest in a teapot.

Many recent economic studies refute the "rich are getting richer while the poor are getting poorer" scenario that Gates, Wolff, and others present as fact:

- John Weicher of the American Enterprise Institute has shown that the portion of the country's total wealth owned by the richest one percent of Americans remains virtually unchanged since 1963. Ownership of mutual funds and retirement accounts among average households has soared in the last 20 years.
- Kenneth Deavers of the Employment Policy Foundation has shown that between 1970 and 1990, the share of families with real

Lawrence W. Reed, economist and author, is president of the Mackinac Center for Public Policy, a free-market research and educational organization headquartered in Midland, Michigan.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

income of less than $35,000 fell about 9 percent at the same time the share making more than $50,000 rose by more than 34 percent.

• Benjamin Schwartz in *World Policy Journal* recently reviewed the long-term history of income inequality in the United States. He found that income inequality, even of an extreme nature at times, has always been a feature of the U.S. economy, throughout its two centuries of producing an ever higher standard of living for the vast share of the total population. In fact, income inequality is lower today than it was in 1890, when 12 percent of the population owned about 86 percent of the country's wealth.

• W. Michael Cox and Richard Alm tracked a representative group of Americans to find out what happened to their incomes. The period they studied was 1975 to 1991—a wider span of time than that represented by the Treasury Department numbers cited above. Cox and Alm found out that the poor didn't get poorer at all. In fact, only 5 percent of the people whose income comprised the bottom fifth in 1975 were still in that bracket in 1991. Sixty percent of them rose all the way to the top 40 percent of all earners.

If inequality of wealth is a problem, there certainly is a far more fruitful solution than forcible redistribution of income. The answer, which free-market economists have persuasively championed, is to remove the endless barriers to entrepreneurship erected by all levels of government.

Government drains off more than a hundred billion dollars of productive capital each year with its deficit spending, for instance. Onerous taxes, regulations, and bureaucratic red tape keep many aspiring entrepreneurs from getting a start and employing others who need work. Welfare policies pay millions to stay in poverty. The government education monopoly spends a fortune and all too often guarantees that children are ill-prepared for a productive future.

The fact is, when people have problems accumulating capital, it's not capitalism's fault. It's the fault of a system that puts political obstacles in the way of economic progress. Americans have erected so many roadblocks over the years that it is a great tribute to enterprise that so much wealth has been created anyway.

Interventionists, unfortunately, have a knack for refusing to take responsibility for their own handiwork. They propose **A** and when it fails, they propose **B** to deal with the problems that **A** created. **B**, of course, is yet another intervention and when it flops, they propose intervention **C**, and on and on. It seems that actual effects and results don't matter, that mere good intentions are sufficient to avoid culpability for bad advice and move on to the next reckless recommendation.

Class-warfare warriors are hung up on simplistic prescriptions for government action that reduce to redistribution of income. They should recognize the futility of that approach and embrace a fresh one—the approach that starts with the assumption that the way to foster broad-based economic progress is to clear the decks of counterproductive, government-erected barriers to progress. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

First, Let's Deregulate All the Lawyers

by George C. Leef

Organized groups—businesses, labor unions, professional associations—frequently lobby for laws and regulations to shield them from having to face wide open competition. "Competition is great everywhere else," they say, "but our particular field is different. We need sensible controls and regulations to protect the public against incompetence and the evils of cutthroat competition." What the group is really after, of course, is cartelization, backed up by the power of the government, without which cartels seldom work very well or last very long. In a free market, competition keeps breaking out, but if members of a group restrict competition, they enjoy exceptionally high profits or earnings for an extended period of time.

Occupational licensure is the technique most often used by professional groups that wish to restrict competition. Since the legal profession has always had a uniquely powerful position to influence the law, it is not surprising that it has been one of the most successful at the game of cartelization. Lawyers have maintained that their learned profession is somehow above ordinary marketplace competition, which is fine for plumbers and dry cleaners, but undignified in so cerebral a calling as theirs. To suppress the indignity of competition, the legal profession erected internal barriers against it—mandatory fee schedules and prohibitions against advertising were long a part of the bar's canons of "professional ethics"—and obtained protection against external competition from state legislatures in the form of "Unauthorized Practice of Law" statutes. These statutes, in effect in every state except Arizona, make it illegal for anyone who is not a licensed attorney to engage in the "practice of law," thus protecting lawyers against competition from people who have some legal knowledge, but aren't licensed.

For decades, this scheme worked beautifully—for the lawyers, anyway. But the legal profession's fortress has been crumbling since the 1970s, when the Supreme Court ruled against both mandatory fee schedules and advertising prohibitions on antitrust grounds. Only the unauthorized practice of law (UPL) statutes still stand. The question I wish to explore here is whether there is any reason to retain these laws. I conclude, both on economic and moral grounds, that there is not.

Protecting the Public?

Supposedly, UPL statutes are necessary in order to protect the public against incompetent provision of legal services. The assumption upon which this rests is that no person

Mr. Leef, president of Patrick Henry Associates: Liberty Consultants in East Lansing, Michigan, is book review editor of The Freeman, *and also this month's guest editor. He earned a J.D. from Duke University Law School in 1977.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

who has not successfully completed the three years of law school and passed the bar exam (the obligatory rite of passage for aspiring attorneys) can be competent to assist another person with a legal problem. Or, to put it another way, the law assumes that the only way to acquire the knowledge necessary to help others with legal problems is by going through the very costly, time-consuming process of earning enough course credits in law school and then memorizing enough of the smattering of legal knowledge that is tested on bar exams to pass. Is this assumption true?

No, it is not true. A law school education is very broad, but shallow. A law graduate has some knowledge about quite a few, but by no means all, fields of the law, but usually is not ready to handle cases on his own. After entering legal practice, he will develop a specialty. The broad study of the law undertaken in law school is not necessarily a waste, but neither is it indispensable. People can learn as much about the law outside of law school as they can in one. Throughout much of our history, most lawyers learned the law as apprentices rather than as students; graduation from law school has been obligatory in most states only since the 1930s.

Some aspects of the law are exceedingly complex and require many years of study to master—the tax code for instance. Many accountants, however, are just as conversant with the IRS code as are the best lawyers and they are more conversant than lawyers whose expertise lies elsewhere. But there are other aspects of the law that are not particularly hard to learn. Drawing up a will, for example, is not necessarily difficult and can be competently done by someone who has invested less than three years' training.

By requiring that legal services be performed by (or at least "overseen" by) licensed attorneys, the price of those services is driven up. There would be a larger supply of people willing to provide relatively simple legal services if UPL statutes did not arbitrarily set such high standards for entry into the field. A larger supply of practitioners would mean lower prices and more options for consumers. Studies done by the American Bar Association show that significant numbers of people, mainly the poor, are priced out of the market for legal help. That would occur less frequently if we didn't have UPL statutes.

But if we didn't have these laws, wouldn't that lead to a lot of incompetent, even dishonest, legal practitioners preying upon the poor? Might that not be even worse than getting no help at all? This counterargument seems to have some plausibility, but both theory and history collapse it.

Poor people are seldom foolish shoppers. They, like nearly all humans, try to protect themselves against bad contracting decisions by acquiring information about the other party before parting with any of their money. Reputation, references, location, advertising—these and other sources of information about a practitioner's honesty and reliability help the consumer to filter out questionable service providers.

But the self-interest of the consumer is not the only filter at work here. The self-interest of the provider is also important. It is very much in the interest of providers of services that they not fail at their tasks and leave dissatisfied, angry, even litigious clients in their wake. To enter into a field and then fail to live up to expectations is very costly. You are likely to lose what you have invested and harm your future business prospects if you undertake work that you are not capable of doing. Markets, therefore, do not just filter out incompetents after they have proven themselves so, but to a great extent also filter them out *prospectively.* So when you put these two self-interest filters in place, as the market does, you would expect to find very few instances of consumer harm due to incompetence.

Experience confirms this. In Arizona, which has had no UPL statute since 1986, there is a robust market for legal services. People who have (or think they have) simple legal needs can and do patronize legal clinics staffed by non-lawyers who know how to do certain kinds of legal work. They charge the market price, which is often significantly less than licensed attorneys charge for the same service. There is no indication that consumers who obtain help from non-lawyers

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

are more dissatisfied with the service they receive than are consumers who deal with lawyers. UPL statutes, the Arizona experience demonstrates, do not protect consumers; they simply take away from them the option of contracting with people who would like to serve them but haven't gone through the steps necessary for licensure. You don't make people better off by taking options away from them.

The question is not whether there will be competency standards or not. The question is how they will be established. UPL (and other occupational licensure statutes) work on the theory that government knows the optimal level of training. The market also sets standards, however. The standards of the market are not articulated as are legislated standards, but they are none the less real and far more useful than are arbitrary, politically driven standards. That is because the market's standards focus on *results* (can you do this to the satisfaction of customers?) whereas government standards focus on *credentials* (have you completed the required studies?). Attorney licensing evidently adds only to cost for consumers, not to their protection against incompetence.

If we allowed a free market in legal services, would every transaction with an unlicensed practitioner turn out satisfactorily? No. That is an impossibly high standard, one not attained by licensed attorneys or anyone else. What we can conclude, however, is that most would turn out satisfactorily and that many people would be able to obtain legal assistance for a lower price than they would be able to under the market-restricting status quo.

Pro Bono Work and Legal Subsidies

Spokesmen for bar organizations readily admit that there is a problem with affordability of legal services for poorer people, but rarely will they consider the solution of opening the market up to individuals who haven't gone through the proving grounds of law school. Instead, they usually suggest remedying the problem by increasing pro bono work (i.e., work done by lawyers for free) and increasing governmental subsidies for legal services for the poor. Neither is a good solution.

If a lawyer wants to donate some of his time to doing work for poor people, there is nothing wrong with that, but the poor would be much better served if they could shop in a free market and contract for what they need. A practitioner with whom they contract is going to be more accountable and more motivated to do a good job than is a lawyer who is grudgingly putting in his pro bono time. He also will probably be more competent in that particular field. A paralegal who handles lots of landlord-tenant disputes, for example, is likely to do better work than is, say, a patent lawyer who remembers little if anything about this field of the law, if he ever learned about it at all.

Government-subsidized legal services (such as the Legal Services Corporation) are both questionable and morally objectionable. Subsidizing legal services is an inferior solution because the funds are apt to be (and clearly have been) drained away into left-wing advocacy, but even if that weren't true and every dollar appropriated actually went toward providing legal services for the poor, subsidies would still be objectionable. Taxpayers should not be forced to give up any of their money to subsidize anything. It is an abuse of governmental power to take money from Citizen A to give it, directly or indirectly, to Citizen B. Perhaps B does need legal assistance that he "can't afford" (read: regards as less important than other potential uses of his money). But his "need" does not justify taking money away from Citizen A, who has needs of his own and is *entitled* to it. Besides, once an entitlement to subsidized legal services is established, the level of "need" for them will rapidly rise. It is easy to see why the legal profession advocates legal subsidies! But, again, a free market would do poor people more good.

Certification

There is a noncoercive alternative to licensure that is far superior, namely, certification.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Certification is an informational device that helps consumers to find the practitioner they want more easily and also helps the practitioner market his services. Consider, for example, the designation "Certified Public Accountant." It is not mandatory that people who wish to do accounting work first obtain C.P.A. status. There is no Unauthorized Practice of Accounting law. But people who desire to establish themselves as having attained a high degree of competence in the field of accounting *voluntarily* take the C.P.A. exam. Earning this certification helps to differentiate them from accountants with a lesser degree of (demonstrated) knowledge. People who have accounting needs that are simple don't bother calling on a C.P.A., whose added expertise isn't worth the added cost of hiring him; those whose accounting needs are very complicated don't bother with non-C.P.A.s, who presumably aren't capable of handling the work.

Certification is widely used in other professional fields, such as insurance and investment counseling, and the legal profession relies upon it once an individual has obtained his license. If a lawyer wants to be known as a good trial attorney, he can (but does not have to) seek certification from the National Board of Trial Advocacy. There is no law against Unauthorized Trial Practice and a bad trial lawyer can do a client at least as much harm as, for example, an unlicensed will-drafter (usually a lot more), but the profession relies on incentive-driven voluntary action by lawyers to obtain the highly specialized knowledge they need to capably represent clients in court. Why, then, can't we rely upon incentive-driven voluntary action by non-lawyers to obtain the knowledge they need to assist their clients?

If we repealed UPL statutes, a system of voluntary certification would almost undoubtedly arise. Membership in the bar might survive the test of the market as a worthwhile certification, but so might others. Perhaps we would see phrases like "Certified by the National Association of Criminal Defense Advocates" by names in the yellow pages. Consumers would be guided thereby in narrowing their search for the right person to handle their problem, but they would always have the option of contracting with whomever they wanted.

Legal Education

Repeal of UPL statutes would have a major impact on the market for legal education. These laws set in stone the existing mode of legal education, since you can't take the bar exam unless you first graduate from an "approved" law school. That requires three years of study covering a wide assortment of subjects. There is no other way of becoming a lawyer, so the law schools have, as Judge Richard Posner has put it, a captive market.

How do we know that three years of study is optimal as the minimum to enter the field of law? In the nineteenth century, before we had attorney licensing and law school accreditation, the number of years spent in law school ranged from zero to two. Many people who wanted to become lawyers learned the law as apprentices or read it on their own. Some chose to attend law schools, but the course of study was in almost all instances, between one and two years.

The American Bar Association's three-year standard is protected from the test of the marketplace. If we repealed the UPL statutes, people intending to enter the field would have to ask themselves, "Is the cost of an additional year (or semester) of study here worth it? Does the present value of my expected increase in earnings exceed my costs for this additional period of study, or not?" I surmise and am reasonably confident that many would answer no at some point short of three years.

The law's insistence that individuals must put in three years of law school to become a licensed attorney almost certainly leads to an overinvestment in legal education that increases both the cost of such education and, subsequently, the cost of hiring a licensed practitioner. It is impossible to say just what effects the market's discovery process would have if it were allowed to work in legal education, but it would certainly lead to a more efficient allocation of resources than currently.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Freedom

I have saved the most important issue for last. Even if UPL statutes did not interfere with efficiency in the market for legal services, they would still be objectionable because they entail coercion (or threats thereof) against individuals who have committed no violation of the rights of others. When an unlicensed person announces that he is able to assist others with legal problems and contracts with them to do so, he violates no right of theirs. The contract they make is voluntary and peaceful. Both parties expect to and usually do gain.

UPL statutes, however, unleash aggression against people who wish to earn a living by providing legal services, but have not run the gauntlet of law school and the bar exam. They can be subject to arrest, trial, and legal penalties simply for having contracted with other willing people. (They can be punished, incidentally, even if the work they did was perfectly satisfactory to the other party. The vast majority of UPL cases are brought by bar organizations, not aggrieved customers.) The law is supposed to protect the rights of individuals to peacefully pursue their goals in life, not to attack them. UPL statutes, however, do not protect rights—they infringe upon them.

Frederic Bastiat proposed this test for bad laws: "See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime." Let's apply that test here. If one or more licensed attorneys discovered that Smith was "practicing law" by, let us say, helping clients prepare divorce papers and they came to threaten him with harm if he didn't stop doing so, that would constitute criminal behavior on their part. Virtually everyone would condemn their aggression against poor Smith; it would be illegal. With UPL statutes, the attorneys have managed to get the state to commit their acts of aggression for them, but that doesn't in any way cleanse the acts of their wrongfulness.

If one person wishes to contract with another for a service, what credentials or experience the service provider has is a matter to be considered *by that person.* It is no business of the government's. But UPL statutes make it the government's business, threatening legal action against those whom the state has not approved to practice law. The purpose of government is not to make our decisions for us, not to "protect" us by restricting our options, not to tell us when we may offer to contract with others. UPL statutes must be seen as an immoral abuse of governmental power, violating the rights of people to pursue an honest livelihood and enter into contracts.

Conclusion

Consumers are best off if they can shop for the goods and services they want in a free market. By coercively interfering with the market for legal services, imposing a very high barrier to entry, UPL statutes make many consumers worse off.

Workers are best served when they can pursue their self-interest by making what they regard as optimal human capital investments and then selling their labor for the best price they can get in a free market. By threatening them with punishment if they attempt to sell legal services without having obtained governmental permission to do so, UPL statutes make those whose best option would have been selling "unauthorized" legal services worse off.

But UPL statutes aren't just objectionable on these utilitarian grounds. They are *morally* objectionable because they necessarily entail coercion against individuals who have committed no aggression against anyone else.

The legal profession would do both itself and the public a favor if it came out in favor of repeal of UPL statutes. Doing so could only improve the profession's image and that might be important. After all, have you ever heard anyone say, "First, let's kill all the accountants"? □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Pervasive Duty to Rescue

Donald J. Kochan

As individuals, Americans may *choose* to act as Good Samaritans and come to the aid of those in need, but are not legally *obligated* to do so. Traditionally under American law, no general duty to rescue is imposed upon us. This, at least, was the classic common tort law of England and the United States. Whatever one might think of the morality of declining to rescue people in trouble, there was no legal penalty for merely going about your own business.

Classic tort law imposed no duty of rescue, and, consistent with that concept, government did not feel it had the power to coerce benevolence in public law either. With the creation of the modern welfare state, however, the government has abandoned its previous restraint. A citizen need only look at his paycheck each week to realize that he is indeed being forced to come to the aid of others.

The private law of torts illustrates one origin of the prohibition on coerced benevolence and is thereby helpful in understanding the injustice of redistribution. The rule accepted in the common law of torts holds that no one can be legally obligated to provide any level of help to another in need. Tort law expressly indicates that an individual cannot be forced to give up a portion of his liberty to benefit another, no matter how little the cost or how great the benefit. This protection against forced benevolence is a logical extension from the concept of negative liberty understood at the Founding and embraced in the Constitution: law exists to protect against intrusions on liberty and not as a means for compelling action.

James Madison, the father of the Constitution, was emphatic in his belief that the Constitution fails to grant the government power to redistribute resources for welfare programs of any kind. In an address to the floor of the House in 1794, Madison attacked a welfare bill stating that he could not "undertake to lay [his] finger on that article of the Federal Constitution which granted a right to Congress of expending, upon objects of benevolence, the money of their constituents."[1] This statement reflects the enumerated powers doctrine, holding that the government cannot act outside of a specific granted power. The Founders did not believe that Congressional power was plenary, as it is often believed to be today.

Given Madison's statement, it is impossible to believe that the Founders contemplated that Congress should have the power to compel assistance from one citizen to aid another. In private law, C never has a claim to take A's property merely because he is in want of it due to his destitution. Such actions are rightly called theft and therefore outlawed. There is no reason to believe that the institution of government somehow transforms this principle and grants C (or others purporting to act on his behalf) the power to employ the state to these ends.

Thomas Jefferson's thoughts on the proper role of government bear repeating here: "A

Mr. Kochan is an Adjunct Scholar with The Mackinac Center for Public Policy, a research and educational organization headquartered in Midland, Michigan.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, *and shall not take from the mouth of labor the bread it has earned.* This is the sum of good government . . ." [emphasis added]. Taxation to support government welfare programs is clearly at odds with our third president's philosophy.

Conscience and Constitution

Noted constitutional scholar and Supreme Court Justice Joseph Story wrote that "[A] man has a perfect right to life, to his personal liberty, and to his property; and he may by force assert and vindicate those rights against every aggressor. But he has but an imperfect, right to . . . charity . . . even if he is truly deserving it . . ." where these imperfect rights "may not be asserted by force of law, but are obligatory only on the conscience of parties."[2]

Ironically enough, some key supporters of the New Deal also recognized that the emerging welfare state was unconstitutional. In 1935, Franklin Roosevelt wrote to the chairman of the House Ways and Means Committee saying, "I hope your committee will not permit doubts as to constitutionality, however reasonable, to block the suggested legislation."[3] In 1968, Rexford Guy Tugwell, a principal architect of the New Deal, observed, "To the extent that these [New Deal policies] developed, they were tortured interpretations of a document [i.e., the Constitution] intended to prevent them."[4]

Social Security, unemployment benefits, corporate subsidies, farm subsidies, public housing, and countless other manifestations of the welfare state are all coerced transfers which impose an affirmative duty to "rescue" upon us. (Many of the beneficiaries, of course, are not in peril or even the least bit needy, but have learned to play the political game well enough to collect large amounts from the government.) This not only adversely affects individual liberty, but also increases the number of imperfect rescues. Government programs create dependency, create flawed incentives, and are too broad and generalized to target resources effectively. They hurt more than they help. In tort law, an individual can be held liable for a failed rescue when his heroic attempts are beyond his capacity and actually do harm to the one in need of assistance.[5] The government, however, is not liable for the harm its "rescue" programs do.

Joseph Story (1779–1845)

Only private charity can meet the requirements of those truly in need of assistance. Private funds can be targeted toward those in actual need. Moreover, private organizations are smaller and more localized, allowing them to address the specific problems that needy people have and apply specific solutions, instead of merely sending out impersonal checks drawn against government accounts. Finally, private charities must be more accountable, for they do not have the coercive power of taxation available to ensure continued funding.

Government programs, unfortunately, have co-opted this superior private approach. Many people believe that they need not get involved because of a flawed perception that the government is doing the job. Moreover, many cannot afford to assist privately, given

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the drain on their budget from taxation. In tort law, a person can be held liable for preventing a needy individual from getting more effective assistance.[6] That, essentially, is what the government does by its discouragement of private charity, but again, the government is not liable for the harm it does.

The rules of the common law, developed over many centuries, usually exhibit a profound wisdom in the ordering of human affairs. The rule against compulsory rescues is such a rule. If you were obligated to help everyone in need, the demands on your time and money would be almost endless. The only solution to the problem that protects the individual's freedom of action and property rights is the one adopted by the common law: there is no legal duty to rescue. There may be a moral duty, but the law leaves that to the individual and his conscience. □

1. *The Cato Handbook for Congress: 104th Congress* (Washington, D.C.: Cato Institute, 1995), p. 19.
2. Joseph Story, *Natural Law*, unsigned article in *Encyclopedia Americana*, reprinted as an appendix in James McClellan, *Joseph Story and the American Constitution* (Norman, Okla.: University of Oklahoma Press, 1990 [1971]).
3. *Cato Handbook*, p. 19.
4. *Ibid.*
5. See, e.g., *Farwell v. Keaton*, 396 Mich. 281, 240 N.W. 2d 217 (1976).
6. See, e.g., *Lacey v. U.S.*, 98 F.Supp. 219, 220 (D.Miss. 1951).

A Moral Basis for Liberty

BY ROBERT A. SIRICO

Introduction by Edmund A. Opitz

The political edifice of liberty requires a firm moral foundation, but the moral terminology of contemporary political debate is often secretly at war with liberty. This represents more than linguistic confusion; it is a danger to the proper exercise of virtue in the context of freedom. While liberty's historical roots are found in Jewish and Christian religions, the moral principles of both are overlooked in modern discussion of such basic institutions as entrepreneurship and the welfare state. Modern discussion and evaluation of the two institutions are in need of radical correction. Advocates of capitalism and economic liberty can and should assume the moral high ground.

ISBN 1-57246-059-8 • 72 pages • paperback $3.95

Published by
The Foundation for Economic Education, Inc.
Irvington-on-Hudson, NY 10533
To order, call (800) 452-3518 or fax (914) 591-8910

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Mont Pelerin Society's 50th Anniversary

by Greg Kaza

This year marks the 50th anniversary of the founding of the Mont Pelerin Society, one of this century's most important groups of free-market intellectuals.

The world was a quite different place when 36 free-market thinkers gathered in April 1947 at the Hotel Park at Mont Pelerin, near Vevey, Switzerland.[1] The Soviet Union, the world's leading Marxist-Leninist state, had erected an Iron Curtain across Eastern Europe. China, engulfed in a civil war, was on the verge of a communist takeover. In Western Europe, democratic socialist parties formed ruling coalitions; the electoral strength of the Communist Party reached double digits in several countries. The United States was awash in liberal Keynesianism—sound money had been abandoned for the Bretton Woods Agreement, which ushered in the age of inflation. The idea of "scientific" government economic planning and regulation was in fashion with most intellectuals.

It was against this backdrop of events that Austrian economist Friedrich Hayek organized the first meeting of the Mont Pelerin Society. In 1944, Hayek wrote a seminal book, *The Road to Serfdom,* which argued that government central planning inevitably led to the rise of the totalitarian socialist state. Marxists maintained that fascism was a form of decaying capitalism, but Hayek's book also included a trenchant critique of Nazism as a form of socialism. After writing *The Road to Serfdom,* Hayek toured the United States. The trip contributed to his decision to issue a call to free-market advocates to meet at Mont Pelerin.

"I have been surprised," Hayek said in his opening address to the Mont Pelerin Society, "by the number of isolated men whom I found in different places, working on essentially the same problems and on very similar lines. Working in isolation or in very small groups they are, however, constantly forced to defend the basic elements of their beliefs and rarely have opportunity for an interchange of opinion on the more technical problems which arise only if a certain common basis of conviction and ideals is present."[2]

Hayek explained, "The need for an international meeting of representatives . . . seemed to me especially great as a result of the war which not only has for so long disrupted many of the normal contacts but also inevitably, and in the best of us, created a self-centredness and nationalist outlook which ill accords with a truly liberal approach to our problems."[3]

The First Meeting

A visitor to Mont Pelerin is immediately struck by the breathtaking, panoramic view. A broad piazza overlooks Lac Léman (Lake

Greg Kaza serves in the Michigan House of Representatives (42nd District) and is also an adjunct professor at Northwood University.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The first meeting of the Mont Pelerin Society took place in breathtaking Alpine splendor, overlooking Lake Geneva.

Geneva) and the alpine Dents du Midi, which are visible in the distance. Across the lake is Evian-les-Bain, France, a spa world-renowned for its bottled water. One nearby resort town is Montreux, home of a well-known international jazz festival. From Vevey, a funicular railway travels up the mountainside to Mont Pelerin, a quiet, semi-rural setting conducive not only for reflection, but for hiking as well. One can hike ten minutes from the railway and stand in a rural field, surrounded by cows and lush green grass. In fact, many of the original Pelerinians, including Hayek, were accomplished hikers and mountaineers.[4]

Pèlerin is the French word for pilgrim. "Pilgrims," remarked American journalist John Davenport, one of the participants, "usually have an idea of the direction they wish to go, though not always agreed on how to get there. Nor is it given to them to know the adventures that will beset them on the road."[5] So it proved to be here. The participants at the Society's first meeting were a diverse group, a mix of American libertarian economists and European free-market moderates. Disagreements were apparent during the session. One was between Chicago School monetarists and adherents of the Austrian School, another between theists and agnostics. At the Society's 1984 meeting at Cambridge, England, Davenport elicited a laugh by observing that the original Pelerinians could agree on everything save the subjects of God and gold.[6]

The original participants included Hayek and Ludwig von Mises, the dean of the Austrian-school economists; Wilhelm Röpke, who played a key role in the great German currency reform of 1948, along with Walter Eucken, an anti-Nazi pursued by the Gestapo during the war. Others were philosopher Karl Popper, American journalist Henry Hazlitt, and Lionel Robbins of the London School of Economics. Participants from the newly established Foundation for Economic Education (FEE) were Leonard E. Read, F.A. "Baldy" Harper, and V. Orval Watts. The

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

F. A. Hayek at the first meeting.

emerging Chicago School was represented by Milton Friedman, his brother-in-law Aaron Director, Frank H. Knight, and George J. Stigler.[7]

The Apprentice Conservative

Stigler later devoted a chapter of his book *Memoirs of an Unregulated Economist* to the Society's first meeting.[8] "The popularity of Hayek's book," he wrote, "led a conservative midwest foundation, the Volker Fund, to contribute to the support of a meeting he called in Switzerland.... I had never met Hayek but my Chicago teachers certified my eligibility for the coming totalitarian firing squads. It showed my lack of inner conviction of the imminence of totalitarianism that the thought never entered my mind."

"It was a revealing first visit," Stigler wrote, "for the younger participants, including Milton Friedman and me. En route we were depressed as much by the austerity of the British economy as by their food (if an ersatz sausage is indeed food). We were instructed as well as embarrassed by the casualness of French life: We did not learn until we left France that we required food ration tickets. I concluded that the British obeyed all laws, the French none, and the Americans obeyed those laws that deserved obedience—in retrospect, something of a simplification. Indeed the black market was a boon to French economic life; it allowed prices to perform their functions."

Stigler continues, "I was instrumental, for the only time in my life, in instructing Friedman on monetary affairs. We sought to convert some dollars into francs at the unofficial exchange rate rather than the official rate that greatly overvalued the franc. I undertook the exchange and approached the clerk at the Grand Hotel, where we were staying. 'Could you direct me to the closest outlet for the black market in currency?' I asked. 'Go no further, gentlemen' was the response as he extracted a wallet from his jacket."[9]

The discussions at the meeting were at a high level, and were not always harmonious. "The protection of agriculture and of agricultural classes generally had strong supporters and opponents," Stigler wrote. "The gold standard was the cherished goal of the older members, but not of the younger economists. On the last day Hayek proposed a set of basic principles, not as a doctrinaire creed but as a common ground. The first was that we believed in the dignity and cherished the freedom of individuals. The second was that we believed in the institution of private property." Alas, Stigler wrote, "a viper in our midst protested!" French economist Maurice Allais believed at the time "that private ownership of land was untenable ... [Allais's] fear turned on the fact that if the interest rate went to zero, as he feared it would, land would become infinitely valuable." Stigler noted, "Allais subsequently abandoned his capital theory and this fear."[10]

One of Stigler's fondest memories involved Eucken, who had opposed the Nazis and yet remained in Germany during World War II. "I remember," Stigler wrote, "the delight with which [Eucken] ate his first orange in five

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

years."[11] Friedman also remembers Eucken's "simple pleasure in eating the fruit."[12]

The German Economic Miracle

Eucken and his fellow Germans were "to prove to be the surprise package of the conference," according to Davenport. "Most economists present were theoretically committed to the free market and a civilized order in which the pricing system organizes economic activity and allocates physical and human resources. But few if any had tasted at first hand a situation where such a system had completely disappeared and where a once great economy had been reduced to primitive barter. The Germans had experienced such a catastrophe, and had a hair-raising story to tell."[13]

The German currency was virtually worthless at the end of World War II, cigarettes having emerged as the preferred medium of exchange. In many cases, Eucken told the conference, farmers refused to sell their foodstuffs for any kind of currency. If you lived in a city and wanted food, you packed your furniture and carted it to a farm in search of potatoes. Barter was not merely theory in postwar Germany. The underground economy was economic fact. Moreover, the United States and British military authorities were not disposed to give West Germany a sound currency, or to let free prices and wages restore incentives and a free-market economic order. On the contrary, they attempted to run the nation through a flood of paper directives and allocations, which Eucken termed *Der Papier Krieg* (the paper war). The paper ordinances were no sooner promulgated than they were disregarded by the German people. In session at the first Society meeting, Eucken pled for sound currency and the lifting of wage and price controls.[14]

Eucken was no doctrinaire libertarian. The free-market partisans around him outlined a program for a return to free trade—"liberalism" in Europe—without its seeming political flaws. The terms "neo-liberalism" and "ordo-liberalism" (meaning support for a free economy operating within an "orderly structure") were coined by the Freiburg University School around Eucken. In the totalitarian climate of the Nazi period a small group of thinkers developed the doctrine of what became known as the *Soziale Marktwirtschaft,* or the socially conscious free-market economy. Under the Nazis the school was a kind of intellectual resistance movement, requiring great personal courage as well as independence of mind. The free-market doctrine rose in opposition to the dominant conditions of Hitler's National Socialist regime. It sought to construct an ideal system that would embody the opposites of its authoritarianism and guard against relapses. But the world the Freiburg School painted was not of classical liberalism with its laissez-faire ideal. The Eucken group supported some government action.[15]

Another participant, Wilhelm Röpke, helped persuade Eucken's pupil Ludwig Erhard, then economics minister in West Germany's provisional government, to abolish price controls, and so make possible the famous German economic miracle of the postwar era. Erhard lifted regulatory controls over a weekend, only to be threatened with jail by the Allied military authorities. Erhard replied, "Ah yes, General, you may put me in prison, but you cannot imprison prices."[16]

Ludwig von Mises at Mont Pelerin

The Austrian School was also represented at the Society's first meeting. The dean of the Austrian economists was Ludwig von Mises, another refugee from Nazi totalitarianism. His views provided a sharp contrast to those of the Chicago School and the Freiburg School.

Mises was the first economist to demonstrate that socialism could not possibly work because of the absence of a price system. In "Economic Calculation in the Socialist Commonwealth" (1920), he had shown that without the guiding hand of the price system, there was no way to allocate scarce resources intelligently. Mises remained an implacable foe of government economic intervention; this steadfastness brought him into conflict with many of the other attendees, particularly over the role of gold in the monetary system.

To Mises, a monetary system based upon

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

FEE founder Leonard E. Read (foreground) and other Mont Pelerin conferees.

fiat paper currency under the control of the government was a dangerous and unnecessary concession to government economic intervention. He advocated, rather, a gold-based monetary system. This brought about a vigorous debate with the Chicago School monetarists. Having grown up under the gold standard and having seen the economic destruction brought by unrestrained issue of paper money in Germany after World War I, Mises, as Davenport puts it, was "not above snubbing those who doubted the efficacy of the yellow metal as a medium of exchange and more importantly as a store of value."[17]

Mises also clashed with participants who were willing to concede to the government some role in the redistribution of income. This topic led to some spirited discussions. According to Friedman, Mises walked out of one of the meetings, declaring, "You're all a bunch of socialists."[18]

Looking Back—and Ahead

The legacy of the Mont Pelerin Society is substantial. It helped to keep alight the lamp of classical liberalism and free-market thought at a time when the damp winds of socialism and interventionism threatened to extinguish it. Pelerinians Hayek, Friedman, Stigler, and James Buchanan (and four others) have won the Nobel Memorial Prize in Economic Science. Many others have played key roles in advising governments worldwide on how to move their economies toward the free-market ideal. Asked to assess the Society's place in history, Milton Friedman answered, "That is an open-ended question we cannot answer.... It certainly played a part."[19]

Indeed it did. At age 50, the Mont Pelerin Society is still going strong, boasting as members some of the best minds working in the realm of economics. Inspired by their illustrious predecessors, they will, I am confident, continue to keep that lamp burning brightly. □

1. According to Milton Friedman, only three survive from the original group of 36: Friedman and Aaron Director of the United States, and Maurice Allais of France.
2. Friedrich Hayek, *Opening Address to a Conference at Mont Pelerin*. Hayek delivered the address April 1, 1947, the first day of the proceedings. Published in Hayek's *Studies in Philosophy, Politics and Economics* (Chicago: University of Chicago Press, 1967).
3. *Ibid.*
4. John Davenport, "Reflections on Mont Pelerin," *The Mont Pelerin Society Newsletter*, July 1981.
5. *Ibid.*
6. John Chamberlain, "Hayek Returns to Cambridge," *National Review*, January 11, 1985.
7. Others attending the original conference were Carlo Antoni, Rome; Hans Barth, Zurich; Karl Brandt, Stanford, Calif.; Stanley R. Dennison, Cambridge; Erick Eyck, Oxford; H. D. Gideonse, Brooklyn, N.Y.; F.D. Graham, Princeton, N.J.; T.J.B. Hoff, Oslo; Albert Hunold, Zurich; Bertrand de Jouvenel, Chexbres, Vaud; Carl Iversen, Copenhagen; John Jewkes, Manchester; Fritz Machlup, Buffalo, N.Y.; L. B. Miller, Detroit, Mich.; Felix Morley, Washington, D.C.; Michael Polanyi, Manchester; William E. Rappard, Geneva; Herbert Tingsten, Stockholm; François Trévoux, Lyon; and Miss C. V. Wedgwood, London.
8. George Stigler, *Memoirs of an Unregulated Economist* (New York: Basic Books, 1985). Chapter 9 ("The Apprentice Conservative") discusses the Society's first meeting.
9. *Ibid.*
10. *Ibid.*
11. *Ibid.*
12. Author interview with Friedman, March 1996.
13. Davenport, *op. cit.*
14. *Ibid.*
15. See, e.g., Henry Wallich, *Mainsprings of the German Revival* (New Haven: Yale University Press, 1955).
16. Davenport, *op. cit.*
17. *Ibid.*
18. *Ibid.*
19. Author interview with Friedman. Readers may also wish to consult R. M. Hartwell's *A History of the Mont Pelerin Society* (Indianapolis: Liberty Press, 1995), for additional information.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Do All Roads Lead to Avernus?

Russell Kirk's Conception of Decadence

by Gleaves Whitney

When the late Dr. Russell Kirk sought a publisher for *The Conservative Mind*, he approached a young Chicago firm run by Henry Regnery. Regnery seized on the significance of the manuscript and in 1953 published the book that would help launch the postwar conservative movement in the United States.

That same year, just a few blocks away, another publication was about to debut, and it too would launch a major American movement. Hugh Hefner's controversial magazine would become the vehicle for disseminating the "Playboy philosophy" in the United States.

There is high irony in the fact that the postwar conservative movement and the "Playboy philosophy" were launched within months and indeed within blocks of each other. But Kirk would not have been surprised by the juxtaposition. He warned readers: "It appears to me that our culture labors in an advanced state of decadence; that what many people mistake as the triumph of our culture actually consists in forces that are disintegrating our culture; that the vaunted democratic freedom of liberal society in reality is in servitude to appetites and illusions that attack religious belief, that destroy community through excessive centralization and urbanization, and that efface life-giving tradition."

Mr. Whitney is senior speech writer for Michigan Governor John Engler and the senior fellow at the Russell Kirk Center for Cultural Renewal.

The Road to Avernus

If there was an allusion that Kirk believed best captured America's downward descent into decadence, it was the "road to Avernus." The allusion, frequently found in Kirk's later writings, comes from Book VI of Virgil's *Aeneid*. Avernus, according to Latin mythology, was the entrance to Hades. It happens to be a real place, a lake located in the crater of an extinct volcano about eight miles west of Naples. The word is derived from the Greek, "*a-ornis*," literally, "without a bird," because of the belief that its mephitic vapors would cause any bird that flew over it to fall out of the sky. Dryden's translation renders it thus:

> Smooth the descent and easy is the way
> (The Gates of Hell stand open night and day);
> But to return and view the cheerful skies,
> In this the task and mighty labour lies.[2]

According to the *Oxford English Dictionary*, the adjective "avernal" entered our language about 1578 as a synonym for "hellish." This is revealing, for it suggests the intent behind Kirk's repeated allusion to Avernus. Decadence is not so much about Right or Left as

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

about Above and Below; not so much about the choices we make in politics and economics as about the thousands upon thousands of decisions we make in matters of faith and morals. Decadence is not to be confused with sin, of course. They are not the same thing. But in a very real sense decadence is linked to a hellish existence, and in ways that become increasingly apparent as one ponders the many manifestations of cultural crisis. This link, this apprehension that decadence is hellish, is the key or "first principle" to apprehending whether we as individuals and as a people are in decline.

Symptoms of Decadence

But Kirk was no reductionist. He believed that, while the breakdown of faith and morals takes you down the *main* road to Avernus, there are many byroads headed in the same direction—byroads paved with the rubble of failed political and economic systems, with the erosion of civil and domestic society, and with the debris of the arts and higher learning.

The political road to Avernus, for example, has been paved with the ruins of countless ancient cities. At their worst, such cities as Babylon, Persepolis, and Rome illustrate the clinical symptoms of decline. They were leviathans of unchecked power, overcentralized government, rampant overspending, crushing taxes, lethargic bureaucracies, and a spoils system that rewarded mediocrity.

These symptoms are hardly unfamiliar to readers of *The Freeman*. In 1996 the IRS—the agency most Americans would gladly dump into the crater at Avernus—sent out more than eight billion pages of forms and instructions, and Americans collectively devoted more than five billion hours to filling them out.[3] Another statistic that says something about our culture is that, in Washington, D.C., alone, there are three times as many lawyers as are found in the entire nation of Japan. Moreover, if you walk the streets of our nation's capital, you are twice as likely to pass a law firm as a church.[4] It seems we reward not compromise and consensus, but conflict and concupiscence.

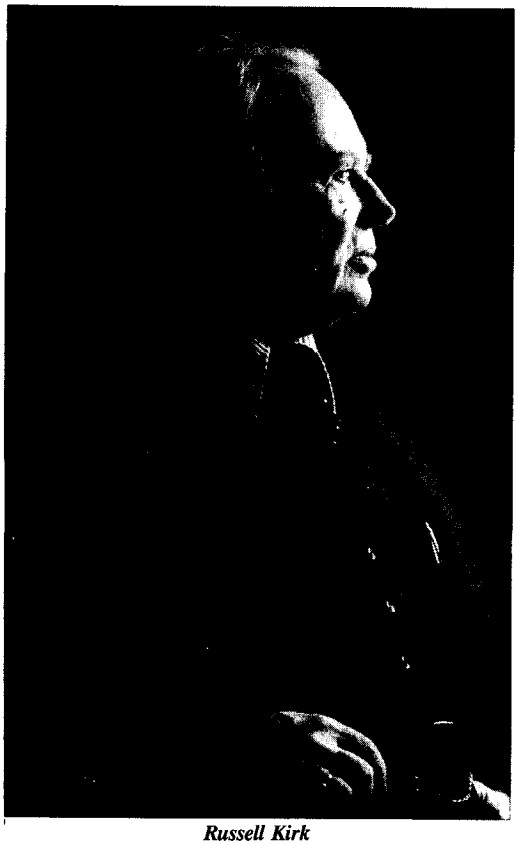
Another important byway to Avernus is paved with the rubble of failed economic systems and policies. The decline of self-reliance and property holding, the shrinkage of opportunity and the middle class, an obsession with luxury and unearned wealth—these are true signs of the decadent. They certainly were the symptoms that plagued the closing decades of the Roman republic largely as a result of a great influx of slaves. Independent farmers and craftsmen could no longer compete in the marketplace with cheap slave labor, and the traditionally sturdy Roman populace became dependent on government welfare. Rome swelled with a proletariat that developed an appetite for violence, narcotics, and the hideous diversions of the Colosseum. One of the most spectacular gladiatorial contests was put on by the Emperor Trajan, who, even accounting for the exaggerations of Suetonius, pitted some 10,000 gladiators against one another over a period of four months. These mass exhibitions of state-sanctioned murder were just one way Trajan kept the mass of impoverished citizens from thinking about more important things—like how to get rid of him.

Kirk saw the signs of decadence along another well-traveled byroad to Avernus—the erosion of civil society and its institutions. Few could match Kirk's mordant wit when it came to exposing the follies of one terminally decadent institution—the academy. He called Michigan State University, his alma mater, "Behemoth U" because it regarded students as so many Model T's on the assembly line. Likewise he was a trenchant critic of our elementary and secondary schools, which have dumbed down curricula to build up self-esteem, apparently under the illusion that ignorance is bliss.

Modernism and Post-Modernism

Kirk frequently cited the work of C. E. M. Joad,[5] a Platonist-turned-Christian who discerned signs of decline in all manner of modern and post-modern philosophy. Avant-garde thought was plagued by metaphysical disorientation, confused logic, à-la-carte morality, and the loss of any higher purpose in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Russell Kirk

human life. This century, these symptoms erupted spectacularly among the so-called Parisian intellocrats. These arbiters of intellectual fashion were in fact rampaging ideologues whose thought was distinguished by the failure to test ideas against reality.

With remarkable casuistry, a Sartre or a Merleau-Ponty could argue away the brutalities of Stalinism. A Derrida could vaporize the very concept of meaning—and philosophy and language departments have yet to recover. The Parisian intellocrats prove that ideas—alas, even bad ideas—have consequences.

Still another byway to Avernus can be seen in the debris of modern/post-modern art and humane letters. Peter Ustinov once remarked that if Botticelli were alive today, he'd be working for *Vogue.* But it's not just the trivialization of art that is so disturbing; it's the nastiness. In one of his finest essays, "The Perversity of Recent Fiction," Kirk wrote that contemporary literature had come "a great way . . . down the road to Avernus. And as literature sinks into the perverse, so modern civilization falls into ruin." So many books and Hollywood scripts were "products of the diabolical imagination, in that they pandered to the lust for violence, destruction, cruelty, and sensational disorder." They were singularly lacking in the moral imagination.

The "moral imagination"—this term is one of the most frequently encountered in Kirk's work. It comes from Edmund Burke, and it refers to the human gift to see that we are more than naked apes; indeed, that we are made in the image of God. "The moral imagination," wrote Kirk, "aspires to the apprehending of right order in the soul and right order in the commonwealth." Without it, letters and learning are sterile. Worse, our whole life suffers, for we are cast forth, in Burke's words, "from the world of reason, and order, and peace, and virtue, and fruitful penitence, into the antagonist world of madness, discord, confusion, and unavailing sorrow."[6]

Another byroad to Avernus was lined with the victims of the breakdown of society's most basic institution, the family. Kirk was much impressed by the analysis of the ancient writer Polybius, who attributed the decline of Greece in large measure to the decline of domestic society. Young people were increasingly unwilling to marry; or if they married they were unwilling to have children; or if they had children, they were reluctant to bring them up, preferring instead to let them die of exposure or to give them up for adoption. As a result, a great many city-states lost their vitality and youth; they became easy targets for invasion because there were so few freemen defending the city walls. Again the parallels with contemporary America are ominous.

The Cause of Decadence: Decline of the "Cult"

All these byroads to Avernus deserve study in their own right. But if we only explore the byroads, we will never find our way to the main road, to the root cause of our predicament. We must go beyond the symptoms in politics, economics, civil society, philosophy,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and humane letters. Kirk tells us that the root of our problem is "The dismissal of the sacred: that rejection lies at the heart of our difficulty."[7] That is the main road to Avernus.

Kirk held that our beliefs, our faiths, are central to our well-being as individuals and as a commonwealth. As the British historian Christopher Dawson frequently put it, a culture comes from the cult; it comes from what a people worship—be it God or mammon. "Cultus" is Latin for worship. People come together around the cult to try to apprehend some greater meaning in their individual and collective lives than grubbing for food and sexual release.

As Kirk used to point out, it is of immense practical importance that groups of families join together in a cult, for only then will they share a moral code. And only when they share a moral code can they begin to cooperate on a large enough scale to defend themselves against marauders while advancing against the brute forces of nature.[8]

Kirk tells us the precise moment when he realized that a culture comes from the cult. He was visiting the Chicago Institute of Art sometime back in the early 1950s, and strolled into a half-darkened corridor on both sides of which were miniature models of medieval buildings, making up a town. At the far end of the exhibit, in a case dominating the display, was the model of a great Gothic cathedral. The accompanying placard explained that the exhibition culminated in the church because it was the focus of all human activity, and the core and source of our civilization.

The experience was to have a lasting effect on the man who described himself, at the time, as a "thoroughgoing secularist." The encounter in that half-darkened corridor suddenly made him alive to the historic reality of Christian culture. And he became convinced that "Civilization, the civilization we have known, is the child of the church."[9]

"But suppose," Kirk challenged us, "suppose that with the elapse of centuries, faith diminishes and the cult withers. What then of a civilization that has been rooted in the cult?"

He concluded: ". . . my own study of such concerns has led me to conclude that a civilization, a culture, cannot survive the dying of the belief in the transcendent order that brought it into being." "When belief in the cult has been wretchedly enfeebled, the culture will decay swiftly. . . . So it has come to pass, here in the closing years of the twentieth century."[10]

Hence America's decline on the road to Avernus.

Yet Kirk was not without hope. He used to quote a line from St. Gregory the Great, who lived in the wake of the collapse of the Western Empire. Rome lay about him in ruin. A dark age had descended upon the West. But Gregory, in one of his more famous sermons, said: "See how the world now withers in itself; yet still flowers in our heart."[11] □

1. *Brewer's Dictionary of Phrase and Fable*, 14th ed., s.v. "Avernus," p. 63.

2. Virgil, *The Aeneid*, Book VI, lines 128–31.

3. John Steele Gordon, "American Taxation," *American Heritage*, May–June 1996, p. 63.

4. Dick Armey, "How Taxes Corrupt," *Wall Street Journal*, June 19, 1996.

5. Cf. C. E. M. Joad, *Decadence: A Philosophical Enquiry* (London, 1948).

6. Russell Kirk, "The Perversity of Recent Fiction," address to the Heritage Foundation, Washington, D.C., May 21, 1981, p. 3. This essay appears in *Redeeming the Time*, a collection of Kirk's writings, edited by Jeffrey O. Nelson (Wilmington, Del.: Intercollegiate Studies Institute, 1996).

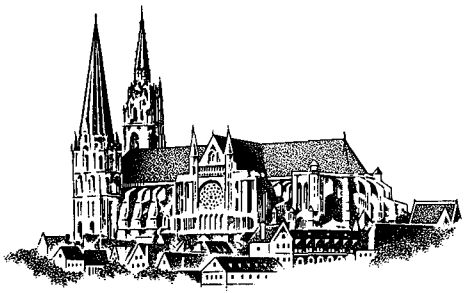
7. Russell Kirk, "A Culture's Road to Avernus," in *Essays on Our Times*, vol. 4 (July 1988), p. 4.

8. *Ibid.*, p. 7.

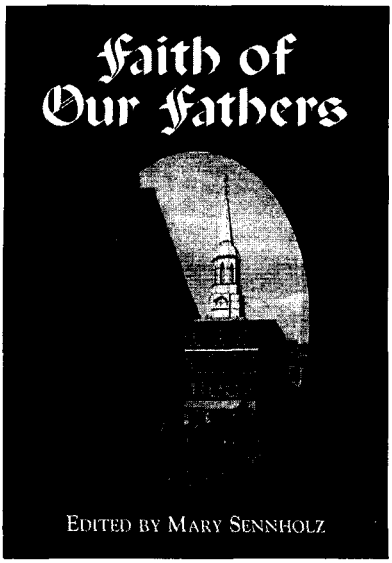
9. *Ibid.*, p. 8.

10. *Ibid.*, p. 8.

11. St. Gregory the Great, quoted in Kirk, *The Roots of American Order* (Malibu, Cal.: Pepperdine University Press, 1977), p. 172.



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Father's Day Gift Suggestion

Faith of Our Fathers

Edited by Mary Sennholz

God-given natural rights were the guiding light of the Founding Fathers. The stirring closing paragraph of the Declaration of Independence was not only the formal pronouncement of independence but also a powerful appeal to the Creator of all rights: "We, therefore, the Representatives of the United States of America, in General Congress, Assembled, appealing to the Supreme Judge of the world for the rectitude of our intentions, do, in the Name, and by authority of the good People of these Colonies, solemnly publish and declare, that these United Colonies are and of Right ought to be free and independent States." In the final sentence of defiance they appealed to the Almighty for His protection: "And for the support of this declaration, with a firm reliance on the protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes and our Sacred Honor."

The moral precepts and the self-evident truths that guided our Founding Fathers may not be fashionable in our time, but they are as inescapable and inexorable as they have been throughout the ages. We are free to ignore and disobey them, but we cannot escape the rising price we must pay for defying them.

Faith of Our Fathers includes an incisive introduction by Mary Sennholz and powerful essays by Clarence B. Carson, John Wesley Young, Robert A. Peterson, Wesley H. Hillendahl, Gary North, Ridgway K. Foley, Jr., Hal Watkins, James C. Patrick, Hans F. Sennholz, George C. Roche III, F. A. Harper, Jarret B. Wollstein, Leslie Snyder, Bruce D. Porter, Benjamin A. Rogge, Paul L. Adams, Ken Ewert, Ben Barker, John K. Williams, Edmund A. Opitz, Erik von Kuehnelt-Leddihn, and Calvin D. Linton.

Published by **The Foundation for Economic Education, Inc.**
Irvington-on-Hudson, NY 10533

ISBN 1-57246-063-6 398 pages (indexed) paperback $19.95
Available in bookstores nationally, or call
(800) 452-3518 • Fax (914) 591-8910

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

NOTES FROM FEE

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Tel. (914) 591-7230
Fax (914) 591-8910
E-mail: freeman@westnet.com

June 1997

The Unique Role of FEE

by Donald J. Boudreaux

Succeeding Hans Sennholz as president of FEE is humbling enough, but attempting to fill shoes once worn by Leonard Read is downright intimidating. Leonard Read was one of this century's most eloquent and passionate champions of liberty, whose writings continue to inspire me — as they have inspired so many others for the past half-century or so. (I dare not try to count the number of times I've begun a lecture with the marvelous story told in "I, Pencil.")

I cannot begin to express my gratitude to FEE's Board for trusting me to meet the challenge of continuing Leonard Read's mission. I can only say that this challenge is one that I will strive to meet with every ounce of my energies.

When founded in 1946, FEE stood alone as an advocate of free markets and strictly limited government. Today, much to Leonard Read's credit, FEE is one among dozens of foundations dedicated to maintaining a free and open society. Such a proliferation of classical-liberal foundations might seem to place FEE at a disadvantage. With all the fine work done today by the Competitive Enterprise Institute, the Cato Institute, the Reason Foundation, Liberty Fund, the Political Economy Research Center, the Institute for Humane Studies, the Independent Institute, the Mackinac Center for Public Policy and other members of the State Policy Network, and the many other such "think tanks," what role remains for FEE to perform?

Is FEE destined to become a victim of its own success in promoting classical-liberal ideas?

My answer is a resounding "No!" I would never have accepted the task assigned to me were I not convinced that FEE does indeed have a unique and important role to play as we enter the 21st century. Before identifying that role, let me clarify what FEE is not.

FEE is not a policy advocate. The job of analyzing and explaining policies consistent with liberty belongs to Cato, CEI, the Institute for Justice, and similar organizations. These organizations do a superb job alerting politicians, bureaucrats, judges, and business leaders to the details of sound alternatives to statist "solutions" for various real and imagined social ills.

FEE is not a surrogate graduate school aiming directly to expand the frontiers of academic research. The Institute for Humane Studies, the Center for Study of Public Choice, and other academic centers excel at identifying promising intellects and encouraging talented individuals to produce top-quality research.

FEE is emphatically *not* partisan. For both practical and ideological reasons, FEE supports no political party or candidate. Indeed, FEE's premier goal is a depoliticized society. FEE would be hypocritical in the extreme if it

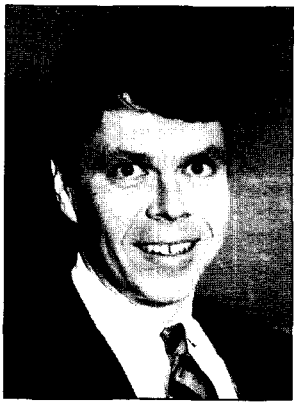
LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

were aligned with any political party or group of candidates. FEE — which lives by the motto "Ideas Have Consequences" — proudly stands apart from politics, recognizing that partisanship is the natural nemesis of truth.

FEE's immediate charge is continually to educate people in the moral and intellectual principles of liberty. And while FEE reaches out to all people, special effort must be directed toward the young — for it is the young who search most fervently for moral and intellectual guidance. By directing many of our efforts at high-school students and college undergraduates, we not only earn a long-term payoff from our successes — 20 year olds will live for an additional 60 years or longer — but we tap the impressive energies that young people bring to matters about which they are passionate. One fact I've learned from teaching at the university level since 1982 is that young people who are exposed to the intellectual case for the free society quickly see the truth in these ideas and appreciate the immeasurable moral superiority that a depoliticized society enjoys over a politicized one.

FEE's ultimate goal is to remove the burden of proof from those who oppose government intervention and to place this burden where it belongs — namely, upon those who endorse political means. Although today's intellectual climate is more hospitable to free-market ideas than it was in 1946, the burden of proving our case remains on those of us who oppose political means. The popular mind is distressingly oblivious to the amazing capacities of a free people to create all manner of institutions that promote peaceful and productive cooperation under myriad circumstances. Too many people still impulsively believe that government should commandeer tax dollars to pay for, say, flood relief and scientific research; too many people impulsively believe that government health and safety regulations are worthwhile; too many people impulsively believe that discretionary government control over the money supply is necessary . . . the list goes on and on. In short, too many people continue mistakenly to believe that government coercion is generally superior to voluntary exchange and interaction as a means of engendering civil society.

Because we proponents of a depoliticized, private-property-based society still bear the



Donald J. Boudreaux

burden of proving our case against political action, policy-oriented think tanks such as Cato and PERC must struggle ceaselessly to hold back the tide of the Leviathan state. To the extent that FEE succeeds in shifting the burden of proof to advocates of active government, the work of free-market policy shops will be much more effective.

Through *The Freeman*, through our op-ed distribution program, through our seminars, and through our various outreach programs, FEE complements our sister free-market foundations. FEE's efforts to spread widely the timeless truths of fundamental economics and the principles of liberty work as a lever for organizations at other stages in the educational process. By changing the underlying presumptions and attitudes held by most citizens — by making people generally more receptive to private property and free markets — FEE helps to fashion an intellectual and political climate that is much more congenial to policies that promote individual liberty.

Again, the single most effective means of re-establishing the primacy of classical-liberal ideas is to introduce these principles to young people. We must be aware that competition for the attention — and for the hearts and minds — of the young is today more intense than ever. I will do my very best to ensure not only that FEE's message remains true to Leonard Read's ideals, but also to his insistence that these ideals be conveyed clearly, crisply, and creatively.

Don Boudreaux

President

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

June Book Sale

A SPECIAL SELECTION OF BOOKS BY AND ABOUT FREDERIC BASTIAT

"What is freedom? It is the sum total of all our freedoms. To be free, on one's own responsibility, to think and to act, to speak and to write, to labor and to exchange, to teach and to learn—this alone is to be free."
—Frederic Bastiat

THE LAW, by Frederic Bastiat
Translated from the French by Dean Russell; Introduction by Sheldon Richman.
First published in 1850, *The Law* is Bastiat's most famous and enduring work. It has been acclaimed for more than a century as the classic moral defense of liberty and limited government.
Hardcover edition with dust jacket, 90 pages with index (regular $12.95) **$9.95**
Also available in paperback: $2.95; carton of 100 copies, paperback: $147.00

ECONOMIC HARMONIES, by Frederic Bastiat
Translated by W. Hayden Boyers; edited by George B. de Huszar; Introduction by Dean Russell.
An inspiring exposition of the natural harmony that results when people are free to pursue their individual interests.
Paperback, 596 pages with index (regular $14.95) **$11.95**

ECONOMIC SOPHISMS, by Frederic Bastiat
Translated and edited by Arthur Goddard; Introduction by Henry Hazlitt.
These essays have come to be recognized as among the most cogent and persuasive refutations of the major fallacies of protectionism—fallacies that are still with us today and will continue to crop up as long as the public remains uninstructed. **Paperback, 271 pages with index** (regular $11.95) **$8.95**

SELECTED ESSAYS ON POLITICAL ECONOMY, by Frederic Bastiat
Translated by Seymour Cain; edited by George B. de Huszar; Introduction by F.A. Hayek.
Gathered in a single volume, these thirteen essays constitute one of the most potent weapons in the intellectual arsenal of freedom.
Paperback, 352 pages with index (regular $14.95) **$11.95**

FREE MARKETS, FREE MEN, by George C. Roche III
Foreword by Dick Armey. (Formerly published under the title *Frederic Bastiat: A Man Alone.*)
A fascinating biography of the great thinker whose ideas on freedom and the economy still ring true today, Frederic Bastiat.
Paperback, 181 pages with index (regular $14.95) **$11.95**

GOVERNMENT AND LEGAL PLUNDER:
BASTIAT BROUGHT UP TO DATE, by Dean Russell
The author, a leading expert on Bastiat, provides a solid contemporary rationale for limited government and unlimited individual freedom within a free market economy. **Paperback, 116 pages** (regular $8.95) **$6.95**

Offer ends June 30, 1997. Postage and handling: Please add $3 per order of $25 or less; $4 per order of $26-$50; $5 per order of more than $50. Send your order, with accompanying check or money order, to FEE, 30 South Broadway, Irvington-on-Hudson, NY 10533. Visa and MasterCard telephone and fax orders ($10 minimum) are welcomed: (800)452-3518; fax (914) 591-8910.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Announcing the 50th Anniversary Edition of FEE's All-Time Bestseller

The Mainspring of Human Progress

BY HENRY GRADY WEAVER
New Introduction by John Hood*

FOR SIX THOUSAND YEARS PEOPLE DIED OF HUNGER.
WHY DON'T WE?

This is the basic question dealt with in MAINSPRING.
But the attempt to find the answer leads into a wide range of subjects, such as:

- What is the greatest of all our modern inventions?
- Who invented zero (0) and why?
- Just what is the difference between a republic and a democracy?
- What simple invention contributed most to our national wealth?
- What was the "bestseller" in 1776?
- Is there one sure-fire formula for personal security?

In MAINSPRING, *Henry Grady Weaver answers these and countless other questions with a truly bold narrative, while taking you on a fascinating journey through history to trace and thus identify—*

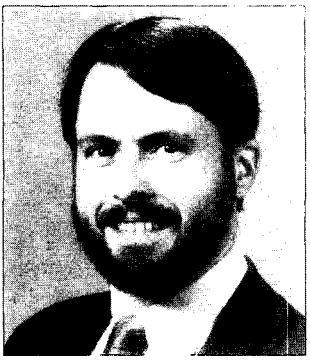
THE MAINSPRING OF HUMAN PROGRESS

*President, The John Locke Foundation, and author of *The Heroic Enterprise: Business and the Common Good* (Free Press, 1996)

Published by
The Foundation for Economic Education, Inc.
30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-064-4 • 272 pages • paperback $12.95
Printed in larger type for easy reading.
Visa and MasterCard orders: 1-800-452-3518

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



The Liability Lottery: Politics by Other Means

Liability law, no less than war, has become a continuation of politics by other means. When defeated at the ballot box, interest groups dedicated to income redistribution and social engineering now turn to the courtroom. The result is a liability lottery that is simultaneously subverting the market and imposing a de facto tax on all Americans.

The purpose of liability law—reflected in negligent and intentional torts of all sorts—is to support the market by holding people accountable for their actions. Indeed, the principle is fundamentally a moral one: if you, or a product manufactured or sold by you, hurts someone, you are responsible for making that person whole. One can, of course, argue about a lot of legal details. For instance, should the fact that the victim's negligence contributed to the accident bar any recovery or merely reduce the judgment? But no one seriously disputes the basic precept that someone at fault should pay for the harm he or she caused.

Unfortunately, government has distorted this simple principle almost beyond recognition. One tactic has been to create faux rights, the "violation" of which make one liable for enormous damages. The most obvious examples are the civil rights laws, which bar private discrimination for any number of reasons, including disabilities that hamper job performance.

Mr. Bandow, a nationally syndicated columnist, is a senior fellow at the Cato Institute and the author and editor of several books, including Tripwire: Korea and U.S. Foreign Policy in a Changed World.

Good people in a good society do not discriminate for malevolent reasons, such as race. But the fact that some bad people do doesn't mean the government should proscribe such conduct. Indeed, in the case of race discrimination the government has transformed the moral principle of nondiscrimination into invidious discrimination. Since it proved very difficult to prove that subjective hiring decisions were animated by racism, the government has made the process a numbers game, imposing liability for failure to meet an arbitrary quota, not for actual discrimination. Agencies like the Equal Opportunity Employment Commission have actually advertised for people to step forward and claim that they might have been discriminated against, even if they never applied to work for the company charged with discrimination.

In other cases discrimination is rational, rather than malign. Companies that depend on responsible employees will naturally shun an alcoholic or drug addict—yet to do so now risks liability under the Americans with Disabilities Act. There are also rational reasons to consider age and sex in hiring decisions. For instance, some jobs create greater health risks for pregnant workers. People might prefer that employers not take such factors into account, but that doesn't justify government imposing liability on them for doing so.

Equally serious is the steady subversion of more traditional liability rules, eliminating the necessity of both requiring the plaintiff to act responsibly and finding the defendant to be at fault. Attorneys, judges, and juries have

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ranged throughout society looking for deep pockets from whom to transfer cash to perceived victims. As the risk of large, meritless judgments has risen, so has the incentive to settle, rewarding plaintiffs who merely file suit in hopes of being bought off.

Cases involving irresponsible plaintiffs abound—the burglar who injured himself by falling through a school skylight (the California education district settled); the drunk who stumbled in front of a New York Subway train (he exclaimed "what a great country" after winning a multi-million dollar jury award); the cigarette smokers suing the tobacco companies (the government has become a plaintiff, too). In all of these cases liability law is being used to reward irresponsible conduct, rather than to hold blameworthy people and companies accountable for their actions.

The pervasive belief in victimhood has led to excessive judgments even when defendants are genuinely at fault. Millions for hot coffee burns and millions more for a mispainted BMW evidence juries acting like politicians, promiscuously giving away other people's money. Many jurors apparently believe that their job is not to assess fault and harm, but to redistribute wealth—in this case from consumers rather than taxpayers.

More mundane but equally troublesome are cases where courts simply impose liability on the deepest pocket around, irrespective of the evidence regarding fault. This area has been enormously profitable for creative legal minds. Shareholder suits seek to hold liable a company's board of directors for falling stock prices; medical malpractice suits blame doctors for birth defects. Indeed, lawyers once sued—and won judgments—claiming that bumps from a fall caused cancer. Equally bizarre have been massive lawsuits involving asbestos, Bendectin, electromagnetic fields, and so-called multiple chemical sensitivity. The point is not that plaintiffs in such cases sometimes aren't hurting. But they too often fail to prove that the person or company being sued is responsible for their ills.

This is evident in the case of silicone breast implants. They came onto the market in the 1960s and were used by a million women—one percent of America's adult female population. For years there was no evidence of harm, but some women, suffering from various ailments, eventually blamed their implants and sued. Bad publicity followed, along with a power grab by the Food and Drug Administration, which ordered implants off the market in 1992 even though it acknowledged there was no evidence that they caused harm. Panic, inflamed by the trial bar, set in. The result was a deluge of lawsuits, more than 21,000 encompassing nearly a half million women.

The liability surge, not surprisingly, destroyed the silicone breast implant industry. Even manufacturers of other silicone-based products, like cardiac pacemaker wires and artificial joints, became wary of their own businesses. But the primary victims are patients, especially women who've suffered from mastectomies. (The American Cancer Society and eight other cancer groups have petitioned the FDA to lift the ban, contending that the agency's "basis for restricting access to silicone breast implants no longer exists.")

All of this havoc has resulted from minimal evidence. (In fact, roughly eight out of ten verdicts have gone for the defense.) Federal District Court Judge Robert Jones recently found that the case purporting to show a link between implants and "systemic" illnesses did not meet the scientific threshold justifying its presentation to a jury and dismissed 70 claims.

Overall, the research suggests that implants generate something between no and minimal risk. For instance, a 1994 Mayo Clinic study reported "no association" between implants and connective-tissue diseases. Similar were the results of a Harvard review the following year. In 1996 another Harvard study found no "large hazard" of disease. It noted a "small" increased risk, but the researchers emphasized any effect is "very small," and acknowledged that this conclusion might reflect women overreporting disease simply because of the massive publicity surrounding implants; the researchers are now attempting to screen out this possible impact.

This is not to denigrate the plaintiffs' fears. Explains Dr. Marcia Angell, executive editor of the *New England Journal of Medicine*, and author of the new book *Science on Trial*,

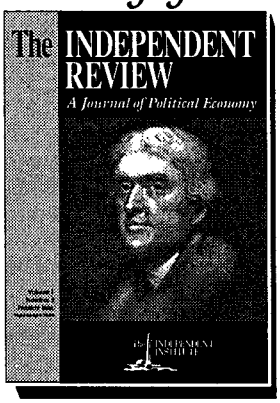
LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

many women have "developed symptoms that any woman over 25 could develop." The drumbeat of publicity convinced many of them that breast implants were to blame.

Additional research on the issue is warranted, but it should be carried out in the laboratory, not the courtroom. Damages should be awarded based on probabilities, not possibilities, especially when those are highly disputed. Moreover, evidence needs to be screened to ensure that it reflects science, not sympathy.

A market system will work only if people who've been injured by the negligence of others are able to receive redress. But that doesn't mean turning American courtrooms into legal lotteries, where neither injury nor fault need be shown for the big prize to be won. Then the overall market economy suffers, along with the defendants wrongly held liable. Whether it's the creation of fake rights or abandonment of traditional standards of negligence, law has increasingly been turned into a tool of politics. □

"The most exciting new intellectual journal in many years." —WILLIAM NISKANEN, Chairman, Cato Institute



The INDEPENDENT REVIEW is the new, quarterly journal devoted to the political economy of liberty. Transcending the all-too-common politicization and superficiality in public policy debate, *The INDEPENDENT REVIEW* is superbly written, provocative, wide-ranging, and based on solid scholarship. Featuring path-breaking studies by many of the world's finest economists and other scholars, *The INDEPENDENT REVIEW* boldly challenges the collectivization and bureaucratization of our world.

Probing the most difficult and pressing of social and economic questions, articles range across economics, political science, law, history, philosophy, sociology, and related fields. Edited by **Robert Higgs**, *The INDEPENDENT REVIEW* features in-depth examinations of current policy issues viewed in comprehensive historical, ethical, and economic perspectives. Undaunted and uncompromising, this is *the* journal that will pioneer future debate!

"Excellent, diverse and wide-ranging."
—IRVING LOUIS HOROWITZ
Professor of Sociology, Rutgers University
"Truly excellent!"—WESLEY RIDDLE
Professor of History, U. S. Military Academy
"Excellent!"—JULIAN SIMON
Professor of Economics, Univ. of Maryland

Figures • Tables • Annual Index • 600 Pages per Volume
Individual Subscription: $27.95/year • $52.95/2 year
Institutional Subscription: $49.95/year • $94.95/2 year
International orders add $28 per subscription for shipping

The INDEPENDENT INSTITUTE

ORDER TOLL-FREE: 800-927-8733
FAX: 510-568-6040
http://www.independent.org

The Independent Institute, Dept. 6T, 134 Ninety-Eighth Avenue, Oakland, CA 94603

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

The Gift of a Child: The Promise of Freedom

by Clark Durant

A child. What a blessing. Laughter. A sense of discovery and curiosity. Faith—at first—that the world will be a good place. Certain without seeing. Persistent. Resilient. Imperfect. Bold. Dependent. Active. Unrefined possibilities. A heart waiting to be nurtured.

How does a child unlock life's possibilities? There are so many questions along the way: Who am I? What am I to do? What is a good and productive life? What do I need to know? Who will teach me?

Learning begins the moment we're born. We try. We fail. We succeed. We seek. We find. We look and listen. We seek to know or to do something better, until at last we either abandon the effort or reach a point of success and satisfaction—often learning more in our failures than what we first had set out to know or to do. But whether we fail or succeed, our imagination is stirred. We ask (and even the smallest child will), "What else is possible?" Learning, then, is first about being free to seek, question, and own. Yes, *own*. Ultimately, we must own what we learn so that we may be accountable for what we learn, and that it may take shape in our minds, hearts, and actions.

There are two preconditions to learning and knowing: freedom and responsibility. The freedom to know, to own, to choose, and to fail. The responsibility for making the choices. Unfortunately, freedom and responsibility are not what we have in public education for our children today, and without them, we must fall short in teaching, learning, and knowing. Without them, our teachers and learning enterprises will not have the tools, the capital, or the incentives to perform at the highest level. Further, until we inject freedom and responsibility, we will continue to suffer all manner of ills: student boredom, violence, dropping out, parental dissatisfaction, academic mediocrity, teacher burnout, and a decline in personal behavior and standards.

This is not because bad people work in our educational system. Thousands of committed teachers, principals, superintendents, and school board members work hard in the field of education. They till the soil, plant seeds, and labor diligently to bring forth a bountiful harvest. Enormous resources, material and of the heart, are committed to the task, but the crop never fully matures, its growth stunted. Why? It is because the tools, methods, and organizational structure of our public educational enterprises are poorly suited to their task. There is no accountability for results, no financial incentives, no coupling of results and rewards, and no competition. The preconditions for the optimum performance in learning are simply not present in public education as we know it today . . . and this is not just my observation.

Clark Durant currently serves on the State Board of Education in Michigan and is the immediate past president of the Board. He is also the chairman of the Cornerstone Schools. He and his wife, the former Susan Sparks, have four children.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The late Albert Shanker, former president of the American Federation of Teachers, pointed out that our public education system more resembles the failed command-and-control economies of Eastern Europe than our own free-market system. Command-and-control organizations are neither free nor accountable. Many people in politics, academia, business, and labor recognize this and have therefore called for educational reform. But I contend that most of these calls are misdirected and doomed to failure. Merely to *reform* a fundamentally flawed system—because it lacks freedom and responsibility—is inadequate.

No matter how hard we try; how many standards we impose; how many professional credits we earn; how much money we spend—we will fall short *unless we get at the root of our problem*. As Louis Gerstner, the Chairman of IBM, said to the National Governors Conference in 1995, "We need a 100 percent revolution that discards the old and replaces it with a totally new, performance-driven system." He's right, but successful revolutions just don't happen. They require vision, understanding, and patience.

"Immediately, Exclusively Controlled by the State"

How do we achieve high performance in undertakings other than education? Think about the responsibilities that parents have toward their children. They must provide food, clothing, shelter, communication, transportation, energy, health, love, and an education. To do these things, one or both of the parents must have a job or a business, not just to earn the money needed, but also to set a moral example of how to live a good and responsible life. Now let us ask: Which one of these basic responsibilities to our children would we want provided through a monopoly political enterprise *immediately, exclusively controlled by the state*? Most likely none of them. Yet, the language, "immediately, exclusively controlled by the state," is the definition that our legislature and courts have used to define public education in Michigan. Other state legislatures and courts have done much the same. Local public schools are defined not by their mission, but instead by political control, money, and geography.

Normally, before we define something, we first decide what it is that we are about: our goals and objectives. Then we decide the best way to organize ourselves to achieve them. But in public education, we do it backwards. We pre-empt our mission and focus; instead, we *begin* by defining public education by its local geography, organizational attributes, political power and control. We do not look at the mission and standards. This is just the opposite of what we do with other enterprises, particularly ones to meet our basic responsibilities as parents. Is having an enterprise "immediately, exclusively controlled by the state" the best method to fulfill our responsibilities as parents and citizens to educate our children? If we insist on this system by law, how can we ever find out what method or methods are truly best?

Food, Shelter, and Transportation

Let's look again at some of those responsibilities to our children. Feeding them. Can you imagine food being produced in enterprises that are "immediately, exclusively controlled by the state"? Can you imagine having to shop only at a government grocery store? Or if you decided that you would rather shop at a non-government grocery store, would you be willing first to pay the government for food you did not use before being allowed to shop in a store of your own choosing? Can you imagine food being produced on government farms? Does anyone believe that a government monopoly enterprise could provide the best food in all of its variety and quality and distribute it at the lowest possible price to the people? Either we'd starve, or at best have a bland and not very nutritious diet. More than half the world has tried a system of providing food through enterprises immediately, exclusively controlled by the state and we know it doesn't work. You need real owners who are accountable and who have a stake in the success or failure of their enterprises if you want the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

highest level of performance, achievement, and service to all people.

Consider shelter. We also have an enterprise "immediately, exclusively controlled by the state" here—public housing. Does it meet the shelter needs of our citizens very well, or even adequately? Hardly. Public housing projects are dangerous and depressing. Most parents with children want to escape from public housing.

What about transportation? My home state of Michigan is the car capital of the world, but there is much competition around the globe. In fact, competition improves the product, performance, service, and price. Can you imagine, however, what cars would be like if they were produced in a system without competition, in an enterprise "immediately, exclusively controlled by the state"? It has been done. East Germany produced the Trabant; Yugoslavia produced the Yugo. Do you drive one? Would you do so if you had a choice? I prefer to buy from Ford, General Motors, Chrysler, or from a host of other companies that succeed—or fail—based on how well they satisfy the consumer. So does virtually everyone else.

One hundred and fifty years ago, travel from New York to California and back took at least four weeks, cost an enormous amount of money, entailed considerable risk, and was very uncomfortable. Today, however, you can fly from New York to Los Angeles and back within one day, for a very reasonable fee (even free with Frequent Flyers), with very low risk, while enjoying the comforts of a meal and a movie. Why is it that transportation today is so much faster, cheaper, safer, and more comfortable than it was a century and a half ago? It is because the transportation industry operates in a market—a consumer-focused, innovation- and service-driven, owner-accountable system—not in an enterprise "immediately, exclusively controlled by the state." Here, as elsewhere, the market has produced spectacular results.

So why do we let a government-owned monopoly system educate our precious children? Enterprises "immediately, exclusively controlled by the state" undermine freedom, responsibility, performance, and community. A politically enforced monopoly does not and *cannot* produce the highest quality standards and results.

We need to de-monopolize and de-politicize our public education enterprises to raise standards, re-energize teachers, strengthen communities, permit wider innovation, and bring down costs, and to allow them to meet the particularized and sometimes unanticipated needs of children. A public school should be a school *the public chooses to have*. Universal access should mean *universal opportunities and choices*.

Peter Drucker has referred to our time as a post-capitalist age, a time of great transformation. No longer is it sufficient to identify the means of production as simply capital, labor, and land. In the post-capitalist age, it is *knowledge* and the application of knowledge to a myriad of transactions that will shape our future. Self-organizing enterprises will offer the strength and capacity to solve problems. Those who understand this will be the leaders in the coming century. This period will require different skills—but classic virtues—from our children if they are to be good and productive citizens. Yet our government education system is rooted in the fixed and bureaucratic framework of a bygone age.

Wanted: New Kinds of Schools

Our schools are more important today than ever before, but they must be different kinds of schools than in the past. We need schools that have the capacity not only to particularize skills and excellences, but also to nurture character and virtue. As Drucker has pointed out, the knowledge society is a society in which many more people than ever before can be successful. But this knowledge can only be acquired through different understandings of teaching, learning, and knowing. Knowledge is portable. It will be created everywhere, quickly and cheaply. It is also changing. Because knowledge is the key resource—more so than land, labor, and capital—self-directed learning and knowledge ownership requires personal responsibility and freedom in order to flower in the garden of opportunity.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Many people currently in public education cringe at the idea of introducing the concepts of the market into their domain. Why? Primarily because markets are perceived as chaotic and impersonal. Some people win, but others lose, they claim. "Schools should be for children, not marketed like products," they say. But markets are just people coming together to trade, giving up something of theirs in return for something else they desire more. There is no loser in a voluntary transaction free of force or fraud. Everyone wins—otherwise the trade wouldn't take place. Free exchange makes possible most everything that makes life easier to bear and enjoy, from the meals we eat, the houses we live in, and the clothes we wear, to the cars we drive, the books we read, and the hospitals that save our lives. We have learned from bitter experience that enterprises "immediately, exclusively controlled by the state" are not good at providing any of these things.

Exchange in the market is characterized by win-win results. Billions of these two-sided victories take place each day all over the world, involving matters of material comfort and also things of the heart. Be glad. Be grateful. Yes, sometimes mistakes are made, the workmanship is poor, or fraud is committed. We may encounter racism. But moral conduct, free exchange and legal protection regarding, among other things, force and fraud, corrects these things best. The occasional imperfection in market exchange is no reason to discard it and its enormous power for satisfaction and innovation.

Many people in public education also object to an educational marketplace because they say the market treats children as if they were just products. Public educators frequently say, however, that children are their raw materials, but unlike businesses, public schools cannot sort and reject imperfect raw materials. They must take them all. Let's set the record straight. Children are not products . . . and they are not raw materials either. They are human beings with a capacity to choose, to discern, and to grow. They are seeking those who can enable them and teach them to fulfill their purpose and build their future. The market best helps the family or responsible adult to find the people and institutions who will do that for children.

Children are at once the same and yet so different. It is precisely this fact that requires educational freedom. There is a basic platform level of skills (reading, writing, math, and communications), as well as the development of virtue and character necessary in the education of every child. But children learn differently and have different interests and aptitudes. Unfortunately, our politicized education system gives us products, services, and methods that are developed by a command-and-control bureaucracy. Do we choose such a system to provide universal access for any of our other basic responsibilities?

Freedom, Ownership, and Leadership

Leadership is the key to a good school. Leadership in the classroom, in the principal's office, and at home. Real leadership and personal responsibility ultimately depend on freedom and ownership. Ownership leads to accountability for success and failure where people are free to make choices. We need to ask how we can make that ownership possible. Let's do what Lincoln did for the development of the West. He let the taxpayers be true owners of the public lands.

Some may try to sidestep this and say that the taxpayers are the owners of the local public education system. They are not the *owners*. They are the *payers*. Keep in mind, however, that collective ownership really means no ownership at all. It merely shifts power to political bureaucracies. Our new understanding of public schools must include *real* ownership. We will need broad-based funding sources to ensure that no child is denied an education, but we must also have multiple educational providers who have the motivation of ownership and accountability.

Let's have public corporations for a new kind of public education. Let's allow educational entrepreneurs to raise capital in the public markets. If you have a good idea and can produce results, enormous resources are

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

available. A tremendous variety of educational enterprises, non-profit and, yes, for-profit, will emerge. Community learning centers. Reading clinics. Math outlets. Banks and financial service companies might start a school of business and finance. Automobile makers and their suppliers might start a school for engineers and other related professions. Our houses of faith can create and/or expand existing schools to offer a program to touch the heart and not just the mind. Teachers, principals, parents, and others may start schools. When we let freedom work, we will discover what best serves the educational needs of different families and children.

Innovations invariably result from the creativity of pioneers who develop a product or service that meets a need we might not even have known before. Competition and the innovation that it fosters will bring down the cost and time of education, while increasing the rewards to those who best succeed in providing educational products and services.

Teaching and learning are starved for capital, both personal and financial. Yet, the statutory framework for public education artificially limits (1) the number and type of public learning enterprises and owners, (2) makes it impossible for existing public providers to tap billions of dollars in financial, knowledge and human capital, (3) restricts the capacities and rewards of teachers, and (4) impedes our ability to create new tools for learning for our children. Freedom, responsibility, and ownership are the keys to unlocking the capital we need to make education flourish as never before.

It is crucial that people purchase public education directly, when and for only as long as they or their children need it. Sovereign consumers have a greater impact on quality and efficiency than a political bureaucracy ever could. Furthermore, if you only pay for education when you use it—like those other parental responsibilities—you will be able to save, invest, and spend according to personal—rather than bureaucratic priorities.

The teachers, principals, and others in our public schools today may and can lead the transformation to our public learning enterprises of tomorrow. There will be others of great creativity to help support and reward these teachers if we open up the system. Traditional schools offering a classic curriculum will have their market, too. They will benefit, as the others will, from innovation, higher investment in technology, distance learning—all bringing lower costs and higher rewards. What is critical for the success of any of these public education enterprises? Freedom, true ownership, and personal responsibility.

Our schools and our children are trapped in the tentacles of an educational establishment "immediately, exclusively controlled by the state." Separate them. Let our children, families, teachers, principals, superintendents, and communities breathe the fresh air of freedom and the challenges of ownership and self-government. When we permit educational freedom, true universal access, and multiple providers, we will not only get the higher performance we all seek in schools for the public, but also stronger communities rooted in a profound sense of love and personal responsibility. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Insurance "Redlining" and Government Intervention

by Gary Wolfram

Redlining has been a topic of public policy debate and action for several years. Figuring most prominently in the provision of real estate and mortgage services, it has now spilled over into the provision of insurance. Unfortunately, policy recommendations have generally resulted in attempts to further regulate insurance. The solution to the problem of redlining lies not in further regulation, but in removal of governmental barriers to entry in insurance and other markets, enforcement of property rights in areas with high concentrations of poor people, and reduction or elimination of barriers to economic growth in these areas.

What Is Redlining?

Redlining is generally taken to mean the practice of refusing to provide a product or service within a given geographical region. The term comes from the image of an owner of a service firm drawing a red line around a portion of a map and deciding not to provide any service within that area. This could be a bank official declaring that the bank will not make any loans in the area, a retail drugstore chain declaring it will not put any stores in the area, or an insurance company deciding not to insure any risks in the area.

Two obvious policy questions are: does redlining occur, and if it does, why does it occur? To answer these questions we must first ask what we mean by redlining. Does redlining exist if ABC Insurance Company decides it will not sell homeowners' insurance in four census tracts in the city of Baltimore, but three other insurance companies all offer such policies? Does redlining exist if ABC Insurance Company only offers certain types of policies in a section of the city, or charges a higher price for insurance in that area than it does elsewhere?

If redlining does exist, is it the result of a market process or simply prejudice? Business decision-makers ordinarily try to obtain business, so a deliberate decision to abstain from it is remarkable. We need to explore the decision-making process to see if it can be explained as something other than irrational discrimination.

Why Discriminatory Redlining Cannot Last in a Market System

The Austrian school of economic thought, as begun by Carl Menger, and developed by Eugen Böhm-Bawerk, Ludwig von Mises, and Friedrich Hayek, has presented in detail how the market system operates. According to Austrian analysis, no firm can long pursue economically inefficient actions without going out of business. Even ignoring opportunities to improve efficiency will result in other firms

Gary Wolfram is George Munson Professor of Political Economy at Hillsdale College in Michigan.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

entering, attracting market share, and eventually eliminating those firms that fail to innovate. Because the market system offers sufficient rewards to those who see and pursue new markets, when profitable opportunities arise, firms will enter.

Suppose that my firm decides not to sell insurance in neighborhood A because the managers of my firm are prejudiced against Catholics, who make up a substantial portion of the population of this neighborhood. Suppose also that it is economically feasible to sell insurance in this neighborhood; that is, the potential customers are willing to pay an amount for insurance that covers the marginal cost of selling the insurance. The latter would include such things as the expected losses from those events that are insured against, administrative costs, retailing costs, rental costs for offices, labor costs, and so on. As long as the government has not set up barriers to entering the market for insurance in neighborhood A, other insurance companies that already exist, or new insurance companies—perhaps run by Catholics—will enter that market. The possibility of making profits will ensure that insurance will be provided as long as there are no government-imposed barriers to entering the market.

Nobel Laureate Gary Becker used a slightly different approach to analyze discrimination in his classic work *The Economics of Discrimination*. His point was that one can view a taste for discrimination as part of the production function of firms and the consumption function of purchasers. If we apply this to the insurance example, we see that my firm is giving up profits by not selling insurance to Catholics. My taste for discriminating against Catholics is costing me the amount of profit to be made from serving that market. What will happen is that those firms that have lower tastes for discriminating will enter the Catholic neighborhood and sell insurance, perhaps at a higher price than non-discriminatory firms. But then, the high profits being made in the Catholic neighborhood will attract firms that have even a lower taste for discrimination, say a Catholic-owned firm, and eventually the market will provide insurance at a rate which results in no discrimination in the insurance market. As long as there are no barriers to entry and the production function for insurance is such that a non-discriminatory firm can supply the market for the neighborhood, then there will be no difference in the provision of insurance in the Catholic neighborhood and non-Catholic neighborhoods that is based upon discrimination against Catholics.

The Cost of Providing Insurance in Urban Areas

The differences in premiums and quantity of insurance written between inner-city areas and the rest of a metropolitan region is likely to be due to differences in the cost of providing insurance. Consider, for example, a 1992 study of insurance availability and affordability in California.[1] The authors present evidence of auto insurance claim frequency, claim severity, and average loss-per-insured vehicle for Los Angeles and three other large California cities and compare it to the statewide average. They also look at claim costs and premiums for 20 California counties and six Los Angeles County cities. The evidence is clear that losses are much higher in Los Angeles than the rest of the state, and there is "a strong positive correlation between claim-costs and average premiums, indicating that the prices insurers charge in different areas are closely related to claim-costs."[2]

A study of 18 large cities in 13 states conducted by the National Association of Independent Insurers found similar results: high-premium cities had a frequency of claims much higher than their statewide averages.[3] It found that high-premium cities were generally the most congested as measured by population and vehicle densities, that a relatively high number of personal injury claims was a major factor in explaining the difference between high-premium and low-premium cost cities, and that most high-premium cities had significant losses attributed to uninsured motorists.

Cost considerations also explain premium differentials for homeowners' insurance. Underwriting costs are higher in inner cities for several reasons. Buildings tend to be older in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

inner cities, with less adequate wiring. They are closer together and more susceptible to fires. Theft and arson rates are higher in these neighborhoods. They are more at risk for civil disorders, such as the Los Angeles riots, which resulted in more than $200 million in losses. The replacement costs of homes in inner cities may far exceed their market value. When this occurs, there is less incentive to take precautions against fire, since the insured would financially benefit from destruction of the property. Given these facts, it is not at all surprising that insurance companies charge more for insurance in inner-city areas, if they offer it at all.

Forcing Firms to Sell at Regulated Prices

The preferred "solution" to redlining of many who see themselves as champions of the poor is for the government to force insurance companies to sell in all areas of the state, including "redlined" areas, and to sell at regulated, "non-discriminatory" rates. Is this a good solution?

Ludwig von Mises wrote extensively about the effects of government interference in the market process.[4] The thrust of his argument is that, since the market system is made up of many interrelated industries, interference in one industry will have multiple effects on other industries. These effects will permeate the economic system, causing unintended consequences which will have an overall result detrimental to all. Government intervention, in short, will prove to be counterproductive. While the interested reader can examine Mises's writings, along with those of Hayek,[5] we can briefly make the point using the insurance example.

Suppose that the government requires firms to sell insurance in given markets at prices below those which they are currently charging. If the market for insurance is open, so that firms can enter the "redlined" neighborhood, then we can presume that the prices for which companies are selling insurance in the neighborhood are sufficient to cover costs and a competitive return on investment, but no more; otherwise other firms would enter and bid away profits. When the government requires firms to sell at a lower price, they will do one of two things. They will either try to reduce the quality of the product charging the same premium for less coverage, or they will decide that doing business in that state is too costly and exit the market. Neither option is beneficial to consumers.

In an effort to solve the problem of declining quality of insurance, the government will probably be driven to regulate it, specifying what types of policies can or must be offered and at what price. More firms will then decide that it is too expensive to serve the state and will exit. The more the government tries to force insurers to behave in ways that are contrary to their interest, the more it creates a state-wide insurance "crisis."

The mandate to sell insurance at unprofitable rates in "redlined" areas will have further repercussions. If insurance companies can increase prices elsewhere, residents of the state will find their rates rising. But since the precedent has been established that the government intervenes in insurance markets when prices are "too high," there will be more demands for government regulation to drive rates back down. If politicians accede to these demands, we will again see declining insurance quality and/or the departure of firms from the market. The spiral of intervention continues.[6]

The reduced availability of insurance will result in calls for the government to directly supply insurance, which it may eventually do. Of course, the government will be faced with the same dilemma that confronted private firms—that is, it will have to subsidize its losses through other means. In the end, the taxpayer will be paying for losses of the government insurance company, which will have its prices and policy set through the political process, rather than through the market process. All firms that use insurance will now become involved in the political process for setting rates and types of insurance, and the government will eventually bog down in an inefficient, high-cost insurance environment.[7]

Attempts by the government to force firms to sell insurance at certain prices in given

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

areas will result in inefficiencies and unintended consequences, the most likely of which will be an abandonment of the targeted areas altogether and loss of availability of insurance not only in the targeted areas but throughout the rest of the market. Government will be forced to have all firms, regardless of their specialty, participate in the losing market for insurance in the targeted neighborhoods. Yet, as Adam Smith pointed out in the first sentence of *An Inquiry into the Nature and Causes of the Wealth of Nations*, it is *specialization* that leads to economic growth. Some firms are better able to take on certain risks than others. Some may not be capable of correctly analyzing and underwriting risks in urban areas. Government mandates and controls inhibit specialization and lead to a less efficient use of resources than would be the case on the free market. The more the government interferes with specialization and trade, the poorer the society will be.

There is nothing in principle that distinguishes insurance from any other product. If we accept the right of the government to determine at what prices and in what amounts a product must be sold in a given neighborhood, then what is true for insurance must be true for new cars, used cars, groceries, hardware items, dry-cleaning services, and so on. This idea is entirely repugnant, as it sounds the death knell for private property and the market order. Can we require every car dealer to sell its cars for the same price in every neighborhood? Can we require every hardware store to operate at a certain number of locations in every neighborhood? Can we require every dry cleaner to service a certain number of customers in every neighborhood? As we extend the principle to other goods and services, the fallacy of the proposition that the government can and should intervene in the insurance market and force equal premiums and equal amounts of insurance in every neighborhood becomes obvious.

Solving the Real Problem

The real problem is that people in the areas where redlining is a concern have low incomes. Because they have low incomes, their housing is older and less safe, and they are concentrated in areas where crime rates are high. Attempting to lower insurance rates through coercion will only aggravate their problems. Insurance companies will be reluctant to enter the market and there will be a true shortage of insurance as the price is held below the market-clearing price. There will be less insurance provided and fewer jobs created by the insurance industry.

The ultimate solution to the problem is to increase the incomes of people who live in "redlined" areas. This can only be done by increasing the amount of capital that each person has to work with,[8] including *physical capital*, such as machinery and equipment, and *human capital*, for example, training and formal education. Job opportunities and wages will increase for residents of low-income areas once greater capital investment raises their productivity. This will then allow them to increase the quality of their housing, reduce the threat of fire and theft, and generally improve their living conditions. When this happens, the probability of theft or fire decreases and they become more attractive customers for insurance companies. Insurance rates will decline due to the force of free-market competition, not because of coercive government intervention.

Reduced regulatory costs and lower taxes, would improve the job opportunities of urban dwellers, giving them a chance to upgrade their housing stock and reduce insurance costs. This would also stabilize neighborhoods, thus providing more certainty to insurance companies and improving their ability to forecast losses, again resulting in lower insurance premiums.

Increased quality of education for inner-city dwellers is perhaps the primary way of improving the circumstances of residents there. There is a large and growing literature on how to improve schools. This is not the place to provide an answer to the problems of inner-city schools. However, improved educational opportunity for those living in so-called redlined areas would do more for the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

housing stock than a thousand statutes purporting to deal with insurance redlining.

Stronger enforcement of property rights in urban areas would also have a salutary effect on the cost of insurance. If the police could reduce the probability of theft and arson, then insurance rates to protect against loss by theft and arson would decline. If fire departments were able to respond more quickly and efficiently to fires, then homeowners' and renters' insurance rates would be reduced.

Since insurance is regulated by states under the McCarran-Ferguson Act,[9] each state must look to its insurance code in order to examine barriers to entry that may preclude persons from forming insurance companies to compete in urban areas, or preclude existing companies from competing in urban areas. As an example, the formation of community-based financial cooperatives have made useful contributions to the credit problems of low-income areas in Britain.[10] States might alter their insurance codes to provide incentives for the creation of community-based insurance companies that can service urban areas more efficiently than larger companies that may have to rely on less specific data to set rates.

Conclusion

It is unlikely that redlining, in the sense of insurance companies deliberately not selling to certain areas because of racial discrimination, or selling at rates that create high profits, exists. In the absence of government barriers to entry, insurance companies would enter markets where profits could be made, increasing the supply of services and driving down prices.

Poor people suffer from a number of maladies. They live in areas which have a high concentration of other poor persons, substandard housing, high incidence of fire, theft, and other crimes, unstable family conditions, and so on. Government intervention in the provision of any good or service, whether it be insurance, food, or medical care, in order to improve the living conditions of the poor will only result in creating problems that exceed those which they try to correct. Attempts to set the price of anything below the market-clearing price will create shortages and aggravate the problems of inner-city residents. This will then require the government to force the provision of the good or service to the area. This will in turn lead to further government regulation and use of the political process to allocate scarce resources. Since markets are the most efficient way of organizing society's resources, everyone will be made worse off.[11]

Instead of pointing to "redlining" and making it an excuse for interference with the insurance market, we should focus on the real problems, which are the low incomes of persons in the inner cities and the high cost of providing insurance. The reduction of crime, better fire protection, lower taxes, better schools, and reduced occupational licensing and zoning regulations, are the real solutions to the problems of inner-city life. □

1. S. Harrington and G. Niehaus, "Dealing with Insurance Availability and Affordability Problems in Inner Cities: An Analysis of the California Proposal," *Journal of Insurance Regulation*, Vol. 10, No. 4, 1992, 564–584.

2. *Ibid.*, p. 569.

3. *Factors Affecting Urban Auto Insurance Costs*, December 1988.

4. See, for example, *Economic Policy: Thoughts for Today and Tomorrow* (South Bend, Ind.: Gateway, 1979), chp. 3.

5. See, for example, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948).

6. Hayek points out how government action on an *ad hoc* basis will result in its being driven to further actions that were not contemplated nor desired. See *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 111.

7. For those who feel this scenario is far-fetched, look at the various proposals for state insurance companies, FAIR plans, insurance codes, etc. We now are discussing a national disaster protection act which would create a national government insurance company. For more of this see, G. Wolfram, "The Natural Disaster Protection Act: A Disaster Waiting to Happen," *The Freeman*, August 1994.

8. See Ludwig von Mises, *Planning for Freedom*, 4th edition (South Holland, Ill.: Libertarian Press, 1980), p. 4.

9. 59 State. 33, 15 U.S.C. Sec. 1011 et seq.

10. See A. McArthur, A. McGregor, and R. Stewart, "Credit Unions and Low-income Communities," *Urban Studies*, Vol. 30, No. 2, 1993, pp. 399–416.

11. For a detailed discussion of the problems created by government intervention in insurance markets, see Harrington and Niehaus, *op. cit.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Frederic Bastiat, Ingenious Champion for Liberty and Peace

by Jim Powell

Frederic Bastiat ranks among the most spirited defenders of economic freedom and international peace.

Nobel Laureate F.A. Hayek called Bastiat "a publicist of genius." The great Austrian economist Ludwig von Mises saluted Bastiat's "immortal contributions." Best-selling economics journalist Henry Hazlitt marveled at Bastiat's "uncanny clairvoyance." Said intellectual historian Murray N. Rothbard: "Bastiat was indeed a lucid and superb writer, whose brilliant and witty essays and fables to this day are remarkable and devastating demolitions of protectionism and of all forms of government subsidy and control. He was a truly scintillating advocate of an untrammelled free market."

The Provisioning of Paris

Witness the eloquence with which Bastiat expressed the seeming miracle of free-market prosperity and predicted the failure of government intervention: "On coming to Paris for a visit, I said to myself: Here are a million human beings who would all die in a few days if supplies of all sorts did not flow into this great metropolis. It staggers the imagination to try to comprehend the vast multiplicity of objects that must pass through its gates tomorrow, if its inhabitants are to be preserved from the horrors of famine, insurrection, and pillage. And yet all are sleeping peacefully at this moment, without being disturbed for a single instant by the idea of so frightful a prospect. On the other hand, eighty departments have worked today, without cooperative planning or mutual arrangements, to keep Paris supplied.

"How does each succeeding day manage to bring to this gigantic market just what is necessary—neither too much nor too little? What, then, is the resourceful and secret power that governs the amazing regularity of such complicated movements, a regularity in which everyone has such implicit faith, although his prosperity and his very life depend upon it? That power is an *absolute principle*, the principle of free exchange. We put our faith in that inner light which Providence has placed in the hearts of all men, and to which has been entrusted the preservation and the unlimited improvement of our species, a light we term *self-interest*, which is so illuminating, so constant, and so penetrating, when it is left free of every hindrance.

"Where would you be, inhabitants of Paris, if some cabinet minister decided to substitute for that power contrivances of his own inven-

Mr. Powell is editor of Laissez Faire Books and a senior fellow at the Cato Institute. He has written for the New York Times, *the* Wall Street Journal, Barron's, American Heritage, *and more than three dozen other publications.* *Copyright © 1997 by Jim Powell.*

The author thanks long-time FEE senior staffer Bettina Bien Greaves for making available the Dean Russell Collection, quite possibly the world's most extensive archive of Bastiat material.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion, however superior we might suppose them to be; if he proposed to subject this prodigious mechanism to his supreme direction, to take control of all of it into his own hands, to determine by whom, where, how, and under what conditions everything should be produced, transported, exchanged, and consumed? Although there may be much suffering within your walls, although misery, despair, and perhaps starvation, cause more tears to flow than your warm-hearted charity can wipe away, it is probable, I dare say it is certain, that the arbitrary intervention of the government would infinitely multiply this suffering and spread among all of you the ills that now affect only a small number of your fellow-citizens."

Bastiat's work offers an enormous wealth of such gems. For instance: *"The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else."*

- "Nothing enters the public treasury for the benefit of a citizen or a class unless other citizens and other classes have been forced to put it there . . . heavy government expenditures and liberty are incompatible."
- "War, slavery, imposture, inequitable taxation, monopoly, privilege, unethical practices, colonialism, the right to employment, the right to credit, the right to education, the right to public aid, progressive taxation in direct or inverse ratio to the ability to pay—all are so many battering rams."
- "If nations remain permanently in the world market; if their interrelations cannot be broken without their peoples' suffering the double discomfort of privation and glut; they will no longer need the mighty navies that bankrupt them or the vast armies that weigh them down."
- "To be free, on one's own responsibility, to think and to act, to speak and to write, to labor and to exchange, to teach and to learn—this alone is to be free."

Bastiat was a blazing light of French classical liberalism, which developed awesome intellectual firepower. The most illustrious names include Baron de Montesquieu (1689–1755), François Quesnay (1694–1774), Anne Robert Jacques Turgot (1727–1781), Marquis de Condorcet (1743–1794), Gabriel-Honoré Mirabeau (1749–1791), Marquis de Lafayette (1757–1834), Germaine de Stael (1766–1817), Benjamin Constant (1767–1830), Jean Baptiste Say (1767–1832), Victor Hugo (1802–1885), and Alexis de Tocqueville (1805–1859). Bastiat stood on the shoulders of his predecessors, helped keep alive a vision of natural rights, inspired his compatriots, and won new converts. He reached out to free trade crusader Richard Cobden in England, and he inspired John Prince Smith, who launched the free trade movement in Germany. Bastiat's influence extended into Belgium, Italy, Spain, and Sweden as well.

He certainly didn't look impressive. In 1845, his friend Gustave de Molinari recalled: "With his long hair, his small hat, his large frock coat and his family umbrella, he could have been easily mistaken for an honest peasant who had come to Paris for the first time to see the sights of the city." Another friend, Louis Reybaud, added: "under the country costume and good-natured attitude, there was a natural dignity of deportment and flashes of a keen intelligence, and one quickly discovered an honest heart and a generous soul. His eyes, especially, were lighted up with singular brightness and fire."

Biographer George Roche noted that "the Bastiat of 1848 was far more cosmopolitan, arriving dressed in the styles of the time. More important, though his emaciated face and hollow voice betrayed the ravages of disease within him, there was something about the glitter of his dark eyes which made immediately clear to all his associates that Bastiat now possessed both the worldly experience of Parisian society and a strong sense of mission."

Claude Frederic Bastiat was born on June 30, 1801, in Bayonne, a seaport in the department of Landes in southwestern France. Bayonne was a quiet medieval town, a political backwater. His father, Pierre, worked with the family banking and export firm, which did business in Spain and Portugal. His mother, Marie-Julie Frechou, died when he was seven. After his father died two years later, Frederic moved in with his aunt Justine Bastiat and his paternal grandfather, Pierre Bastiat.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

They sent him to schools in Bayonne, then to the Benedictine college of Sorèze, which attracted students from Britain, Greece, Italy, Holland, Poland, Spain, and the United States, contributing to his cosmopolitan outlook. He learned English, Italian, and Spanish. He read literature and philosophy, and he played the violoncello.

When Bastiat was 17, he left Sorèze to join his uncle Henry de Monclar in the same banking and export firm where his father had worked. While he didn't want a commercial career, he was interested in the civilizing influence of commerce and the many ways that laws hurt people. He observed, for instance, how the 1816 French tariff throttled trade, resulting in empty warehouses and idle docks around Bayonne. In 1819, the government put steep tariffs on corn, meat, and sugar, making poor people suffer from needlessly high food prices. High tariffs on English and Swiss cotton led to widespread smuggling.

Jean Baptiste Say

Bastiat explored books about political economy, as economics was called. "I have read the *Traité d'économie politique* by Jean Baptiste Say, an excellent and methodical study," he wrote a friend. Say descended from Protestants who had fled France during religious persecution. He worked for a while in Britain before joining a Paris insurance company. There his boss suggested that he read Adam Smith's *Wealth of Nations*. The book thrilled him, and he resolved to learn more about how an economy works. His first literary work was a 1789 pamphlet defending freedom of the press. He co-founded a republican periodical, *La Décade philosophique*, which published many of his articles about economic freedom. He embraced the ideals of the French Revolution and in 1799 became a member of the governing Tribunate.

The *Traité d'économie politique*, Say's major work, appeared in 1803. He reintroduced free-market views to France and Europe generally. Back before the French Revolution, Turgot and other intellectuals known as "physiocrats" had done much to promote economic freedom—and coined the immortal phrase *laissez-faire* ("let us be"), which became a battle cry—but these intellectuals all accepted royal absolutism. Moreover, early physiocrats thought land was the most important source of wealth, which suggested support for the landholding aristocracy. These were major reasons why they fell out of fashion after the French Revolution. As a republican, Say was in a position to help convince future generations about the importance of economic freedom. "He held that the most productive economy must rest on private property, private enterprise, and private initiatives," noted Princeton University historian Robert R. Palmer in his recent intellectual biography of Say.

Say discarded Smith's labor theory of value, insisting that value was determined by customers. Say recognized the creative role of entrepreneurs. He rejected the dark pessimism of British economist T.R. Malthus, who feared that population growth would outstrip the capacity of private food producers. Say believed free-market capitalism could achieve unlimited progress.

He viewed taxation as theft. Consider these comments: "The moment that value is parted with by the tax-payer, it is positively lost to him; the moment it is consumed by the government or its agents, it is lost to all the world, and never reverts to, or re-exists in society. . . . It is a glaring absurdity to pretend, that taxation contributes to national wealth, by engrossing part of the national produce . . . seized on and devoured by taxation . . . the act of levying is always attended with mischief."

Among other things, Say's *Traité d'économie politique* condemned wild government spending, military conscription, and slavery ("the most shameful traffic in which human beings have ever engaged"). Since Napoleon had reintroduced slavery in French Caribbean colonies, pursued imperial conquest, and spent money at a ruinous rate, it's no wonder that Say's book was censored. In addition, he was dismissed from the Tribunate. He turned to business and started a cotton-spinning mill which grew to employ more than 400 people.

It was Napoleon Bonaparte who popularized the word *idéologue* as a derisive term aimed at defenders of freedom like Say. "All

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the misfortunes that our beautiful France has been experiencing," Napoleon declared, "have to be ascribed to ideology, to that cloudy metaphysics which goes ingeniously seeking first causes." Not until after Napoleon's downfall was it possible to bring out a revised edition; all together, there were a half-dozen editions during his life, the last in 1829. Say gave up cotton-spinning, became a professor at the Collège de France, and Thomas Jefferson reportedly wanted to hire him for the University of Virginia.

After meeting Say in Paris, the English philosopher and economist John Stuart Mill called him "the ideal type of French republican." The radical republican publicist Louis Auguste Blanqui (1805–1881) remarked that Say "detested at the same time the Bourbons [French royal dynasty] and Bonaparte, an apparent contradiction which filled me with astonishment."

Say inspired a new generation of French liberals devoted to laissez-faire principles. Among these was Say's lively son-in-law Charles Comte, who, with the scholarly Charles Dunoyer (1786–1863), founded and edited *Censeur européen*, the most important libertarian periodical in the decade after Napoleon's downfall. Dunoyer wrote *De la liberté du travail* (*Freedom to work*, 1825), and Comte's *Traité de legislation* (*Treatise on legislation*) came out the following year. Comte went on to contribute articles for *Revue Americaine*, established by the Marquis de Lafayette, hero of the American and French revolutions. Dunoyer and Comte attacked the socialist doctrines of Comte de Saint-Simon (Claude Henri de Rouvroy) and his followers. Dunoyer and Comte opposed government interference with private property, labor markets, or trade, and they strongly believed that voluntary association and market competition were absolutely essential for human progress. Wary of violent revolution, they did their best to change the world by educating people. They discussed issues with the leading French liberals of their day, including philosopher Benjamin Constant, novelist Stendhal (Marie Henri Beyle, 1783–1842), historian Augustin Thierry (1795–1856), and Belgian-born economist Gustave de Molinari (1819–1912).

From Say, Bastiat learned that economic freedom works better than government intervention and that he might gain influence by explaining fundamental principles. Bastiat surely must have been cheered to discover a growing community of French liberals. They displayed much deeper understanding of freedom than the better-known English economists who embraced Jeremy Bentham's Utilitarianism and subsequently succumbed to socialism.

"Solitary Studies"

In 1824, Bastiat dreamed of going to Paris and somehow making a difference, but his ailing grandfather asked him to live on the 617-acre family property near Mugron, a small town, and that's what he did. "I am putting aside all ambitious projects and am returning again to my solitary studies," he remarked. His grandfather died the following year, and he inherited the property. Like the early physiocrats, Bastiat promoted better farming techniques among the tenants who worked his property, but they weren't much interested. "What would you have if you had a philharmonic society composed of the deaf?" he lamented. He spent most of his time with books.

Bastiat came across a copy of *Poor Richard's Almanack* in 1827. He wrote a friend: "I have discovered a real treasure—a small volume of the moral and political philosophy of Franklin. I am so enthusiastic about his style that I intend to adopt it as my own."

For a sounding board, he turned to his neighbor Félix Coudroy, a young lawyer who shared his passion for ideas. Coudroy, however, revered Jean Jacques Rousseau and favored socialism. Coudroy frequently read books, marked telling passages, passed the book to Bastiat, and then they talked about it. Bastiat learned a great deal about biography, history, politics, religion, and philosophy this way. Eventually, he converted Coudroy to classical liberalism. They were to be close friends for two decades.

Around 1830, Bastiat decided "I would like a wife." He married one Marie Hiard but, as biographer Louis Baudin noted, "He left the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

bride at the church after the wedding and continued to live as a bachelor." Somehow, a son was born, but his wife continued to live with her parents.

On July 26, 1830, King Charles X suspended freedom of the press, dissolved the French Chamber of Deputies, took away the right to vote from middle-class people, and called for new elections in which only aristocrats could participate—a scheme to restore royal absolutism. This triggered a revolution, and after three days of upheaval, he abdicated. The revered Marquis de Lafayette threw his support behind Louis Philippe, who, though related to the long-ruling Bourbon dynasty, agreed to serve as a "Citizen King." He stood astride a moderate, middle-class regime which was corrupted by power as the aristocracy had been corrupted before. Louis-Philippe's chief minister François Guizot encouraged people to "Enrichissez vous, enrichissez vous" ("enrich yourselves").

Bastiat began to play a minor role in public affairs. Soon after the 1830 Revolution, he was appointed a justice of the peace in Mugron, and he was elected to the General Council of Landes. While traveling through Spain and Portugal, he again witnessed the folly of trade restrictions, which kept people poor.

Bastiat submitted an article to the *Journal des économistes*, and although the editors had rejected his previous submissions they published this one in October 1844. The article made a case that tariffs were bad for both Britain and France, and it caused a sensation. The article inspired congratulatory letters from Charles Dunoyer and from Michel Chevalier (1806–1879), who was an economics professor at the Collège de France. Chevalier had favored the ideas of the socialist Saint-Simon and the authoritarian Joseph de Maistre. As Chevalier biographer Marlis Steinert noted, "He read Bastiat, and he was converted."

Cobden and Bright

While going through some London newspapers, Bastiat was thrilled to read about how textile entrepreneurs Richard Cobden and John Bright led the Anti-Corn-Law League, a crusade for free trade. Bastiat began gathering material for a book on the Anti-Corn-Law League, and he started corresponding with Cobden. The Englishman was then about 40, and according to a friend, he could often be seen "half skipping along a pavement, or a railway platform, with the lightness of a slim and dapper figure, and a mind full bent upon its object."

In July, Bastiat crossed the English Channel to see Cobden. "They told me that Cobden was on the point of starting for Manchester," Bastiat wrote a friend, "and that he was most likely preparing for the journey at that moment. . . . I hurried to Cobden's house, where I found him, and we had a conversation which lasted for two hours. He understands French very well, speaks it a little, and I understand his English. I explained the state of opinion in France, the results that I expect from my book, and so on."

According to biographer John Morley, Cobden told Bastiat "that he ought to take up his quarters at the hotel of the League, and to spend his evenings there in listening to the fireside talk of [Cobden's compatriot] Mr. Bright and the rest of the band. A day or two afterwards, at Cobden's solicitation, Bastiat went down to Manchester. His wonder at the ingenious methods and the prodigious scale of the League increased with all that he saw. His admiration for Cobden as a public leader grew into hearty affection for him as a private friend, and this friendship became one of the chief delights of the few busy years of life that remained to him."

Bastiat's book *Cobden et la Ligue* scooped all other French journalists. He was the first Frenchman to talk about the English free trade movement that soon reached a climax when Parliament, in June 1846, approved a bill to begin repealing grain tariffs. This marked a dramatic departure from traditional tariff negotiations based on the principle of "reciprocity": one nation would cut tariffs only if another nation would make comparable "concessions." Tariff negotiations tended to be slow, unproductive, and acrimonious. Cobden and Bright persuaded Parliament to *unilaterally* abolish grain tariffs without asking "concessions" from any nation, including

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

France, which had fought England through many bitter wars. Cobden and Bright had made a compelling case that free trade would benefit England, especially poor people who needed access to cheap food, even if other nations kept their borders closed. Moreover, they maintained, unilateral free trade would contribute to international peace by taking politics out of trade, reducing the risk that economic disputes might escalate into political and military conflicts. Unilateral free trade was a bold gesture for goodwill among nations.

Economic Sophisms

Bastiat wrote a series of articles for *Journal des économistes*, attacking the fallacies of protectionism. For instance, the fallacy that tariffs would mean high living standards, that labor-saving machinery destroys jobs, that tariffs are needed to maintain economic independence and national security. Bastiat viewed everything from the standpoint of consumers. His essays were lucid, dramatic, insightful, often amusing satires. He gathered 22 of the essays in a book, *Sophismes économiques* (*Economic Sophisms*), which appeared in late 1845. A second volume of 17 essays appeared three years later. They were translated into English and Italian.

Bastiat's wit is on display in "An Immense Discovery": "There are men lying in wait along the whole length of the frontier, armed to the teeth and charged with the task of putting difficulties in the way of transporting goods from one country to another. They are called *customs officials*. They act in exactly the same way as the mud and the ruts. They delay and impede commerce; they contribute to the difference that we have noted between the price paid by the consumer and the price received by the producer."

Bastiat's most famous satire was his "A Petition," in which candlemakers appealed to the French Chamber of Deputies for protection against an insidious competitor. "We are suffering from the ruinous competition of a foreign rival who apparently works under conditions so far superior to our own for the production of light that he is flooding the domestic market with it at an incredibly low price; for the moment he appears, our sales cease, all the consumers turn to him, and a branch of French industry whose ramifications are innumerable is all at once reduced to complete stagnation. This rival, which is none other than the sun, is waging war on us so mercilessly that we suspect he is being stirred up against us by perfidious Albion [England]. . . .

"We ask you to be so good as to pass a law requiring the closing of all windows, dormers, skylights, inside and outside shutters, curtains, casements, bull's eyes, deadlights, and blinds—in short, all openings, holes, chinks, and fissures through which the light of the sun is wont to enter houses. . . ."

In late 1845, the Bordeaux Chamber of Commerce took a step toward free trade by urging that France and Belgium form a customs union, and Bastiat was asked to help. He wrote articles for a Bordeaux newspaper and he delivered speeches aimed at encouraging France to go beyond a customs union and pursue free trade with people everywhere.

Mindful that the English free trade movement had been launched in a regional city—Manchester—Bastiat helped form the *Association bordelaise pour la liberté des échanges* (Bordeaux Association for Free Trade) on February 23, 1846. Cobden had gone national after a regional free trade association was underway, and Bastiat adopted the same strategy. He went to Paris and launched the *Association pour la liberté des échanges* (Free trade association) on May 10, 1846. Among those who helped Bastiat were Auguste Blanqui, Michel Chevalier, Charles Dunoyer, Gustave de Molinari, and Jean Baptiste Say's son Horace. On August 18, they kicked off their campaign with a dinner featuring Richard Cobden. The French free trade association held a succession of public meetings in Paris at Montesquieu Hall, named after the eighteenth-century French philosopher who had advocated a separation of government powers.

"I cherish all forms of freedom," Bastiat subsequently wrote Cobden, "and first among them that freedom which is the most universally beneficial to all men, which they enjoy every minute of the day and under all cir-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cumstances of their lives—freedom of labor and freedom of exchange. I realize that the right to possess the fruits of one's toil is the keystone of society and even of human life. I realize that exchange is implicit in the idea of property, and that restrictions on exchange shake the foundations of our right to own anything."

In another letter to Cobden, Bastiat made clear he recognized how much was at stake in the fight for free trade: "Rather than the fact of free trade alone, I desire for my country the general philosophy of free trade. While free trade itself will bring more wealth to us, the acceptance of the general philosophy that underlies free trade will inspire all needed reforms."

Bastiat encouraged others to organize free trade associations in Marseilles and Lyons. He reported to Cobden: "Unquestionably, we are making progress. Six months ago, we didn't have even one newspaper for us. Today we have five in Paris, three in Bordeaux, two in Marseilles, one in Le Havre, and two in Bayonne."

Le Libre-Échange

On November 29, Bastiat began publishing *Le Libre-Échange*, a four-to-eight-page weekly free trade newspaper. "Free trade!" Bastiat exulted, "It is a phrase that will level the mountains. . . . Do you imagine that we have organized ourselves to get some small reduction in tariffs? Never. We demand for all of our fellow citizens, not only freedom to work but also freedom to exchange the fruits of their work."

Bastiat was an inspiration for people who organized free trade associations in Belgium, Spain, and Italy. He also had an impact on intellectuals in Germany. The Englishman John Prince Smith (1809–1874), who had gone to Prussia and become a citizen, was influenced by Bastiat, and widely promoted free trade ideas. As historian Ralph Raico notes, Prince Smith worked at "disseminating good translations of the works of Frédéric Bastiat and in gathering about him a circle of like-minded enthusiasts."

During 1847, Bastiat advised Cobden that free trade was only the first step toward promoting solid peace with France. "The policy taken by you and your friends in Parliament will have an immense influence on the course of our undertaking. If you energetically disarm your diplomacy, if you succeed in reducing your naval forces, we shall be strong. If not, what kind of figure shall we cut before our public? When we predict that Free Trade will draw English policy into the way of justice, peace, economy, colonial emancipation, France is not bound to take our word for it. There exists an inveterate mistrust of England, I will even say a sentiment of hostility, as old as the two names of French and English. . . . England ought to bring her political system into harmony with her new economic system."

Cobden and Bastiat collaborated on many things. On one occasion, for instance, Cobden wrote: "My first speech . . . cost me a good deal of time with the aid of Bastiat to write and prepare to read it. My good friend Bastiat has been two mornings with me in my room, translating and teaching, before eight o'clock."

Bastiat continued to do the lion's share of organizing work in France. He wrote Coudroy: "My friend, I am not only the Association, I am the Association entirely. While I have zealous and devoted collaborators, they are interested only in speaking and writing. As for the organization and administration of this vast machine, I am alone."

Unfortunately, while entrenched interest groups aggressively defended French tariffs and import prohibitions, there wasn't any interest group willing to back free trade. "I am losing all my time," he wrote Coudroy, "the association is progressing at a turtle's pace." The lack of money and social connections discouraged Bastiat, as he admitted to Cobden: "I suffer from my poverty; yes, instead of running from one to the other on foot, dirtied up to my back, in order to meet only one or two of them a day and obtain only evasive or weak responses, I would like to be able to unite them at my table in a rich salon, then the difficulties would be gone! Ah, it is neither the heart nor the head that I lack, but I feel that this superb Babylon is not my place and that it is necessary that I return to my solitude."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

In 1847, the French government debated a bill which would abolish about half of the French tariffs, but protectionist lobbyists killed it, and the free traders never recovered. Bastiat wrote Cobden: "Our adversaries are full of audacity and ardor. Our friends, on the contrary, have become discouraged and indifferent. What good does it do to be a thousand times right if we can't get anyone to listen. The tactics of the protectionists, concurred in by the newspapers, are to ignore us completely." The French free trade association held its last public meeting on March 15, 1848, and *Le Libre Échange* ceased publication after the April 16 issue.

Reform of the corrupt government had become the hottest political issue, and the situation had reached a climax on February 21, 1848, when National Guards shot about 20 republican demonstrators in Paris. Suddenly, the city exploded into revolution. The king abdicated three days later, and the Chamber of Deputies proclaimed France a republic. Ten republican leaders, including the socialist Louis Blanc, headed a provisional government that would run things until the election of a Constituent Assembly. Blanc demanded a "Ministry of Progress," nationalization of industry, and "national workshops." The "workshops," a make-work scheme for socialists and the unemployed, were set up, and by mid-June they had some 120,000 people working mostly on roads.

Amidst the upheaval, Bastiat published about a dozen issues of *La République française*, a two-page periodical defending libertarian principles. He insisted that people must be secure in "all rights, those of the conscience as well as those of intelligence; those of property, like those of work; those of the family as those of the commune; those of the country as those of humanity. I have no other ideal than universal justice; no other banner than that of our flag: Liberty, Equality, Fraternity."

Election as Deputy

Just as Cobden had become convinced that he would be more effective working within Parliament and stirring up popular support

Frederic Bastiat

for libertarian principles, Bastiat concluded he must try to influence the Constituent Assembly. In April 1848, with universal manhood suffrage, he was elected a Deputy from Landes. Then on May 15, disgruntled welfare recipients from the "national workshops" invaded the hall where the Constituent Assembly met and drove out the deputies. National Guards crushed the rebels, and the Constituent Assembly declared martial law and proceeded to dismantle the "national workshops." During the "Bloody June Days" (June 24–26), an estimated 20,000 armed socialists from the "national workshops" fought for power, but backed by the National Guards, the Constituent Assembly got tough. Some 10,000 people were killed or wounded, and another 11,000 were imprisoned.

For several weeks, Bastiat issued a two-page revolutionary paper, the daily *Jacques Bonhomme*, edited by Charles Coquelin and Gustave de Molinari. Bastiat recognized that revolutionary violence occurred not because there was too much freedom but because there wasn't enough. "Can we imagine citizens, otherwise completely free," he wrote to Félix Coudroy, "moving to overthrow their

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

government when its activity is limited to satisfying the most vital, the most keenly felt of all social wants, the need for justice? We have tried so many things; when shall we try the simplest of all: freedom?"

Bastiat produced articles for the *Journal des Économistes, Journal des Débats, Courrier français, Journal du Havre, Courrier de Marseille, Sentinelle des Pyrénées* and others. He contributed two essays to the *Dictionnaire de l'Économie politique* (*Dictionary of Political Economy*), which Ambrose Clement, Charles Coquelin, Horace Say, Gustave de Molinari, and others developed as a means to popularize free-market ideas. Moreover, Bastiat wrote letters for the opposition press, including *l'Époque, Journal de Lille, Minoteur industriel, la Presse, and Voix de Peuple* (where, through 14 remarkable letters, Bastiat debated the bombastic socialist Pierre Joseph Proudhon). Professor Dean Russell is convinced that Bastiat took the lead exposing the fallacies of socialism.

Bastiat ridiculed claims that government could increase the total number of productive jobs. "The state opens a road, builds a palace, repairs a street, digs a canal; with these projects it gives jobs to certain workers. *That is what is seen.* But it deprives certain other laborers of employment. *That is what is not seen.* . . . do millions of francs descend miraculously on a moonbeam into the coffers of [politicians]? For the process to be complete, does not the state have to organize the collection of funds as well as their expenditure? Does it not have to get its tax collectors into the country and its taxpayers to make their contributions?"

When, in the name of compassion, socialists demanded more powerful government, Bastiat fired away with tough questions: "Is there in the heart of man only what the legislator has put there? Did fraternity have to make its appearance on earth by way of the ballot box? Does the law forbid you to practice charity simply because all that it imposes on you is the obligation to practice justice? Are we to believe that women will cease to be self-sacrificing and that pity will no longer find a place in their hearts because self-sacrifice and pity will not be commanded by the law?"

Bastiat warned socialism must mean slavery, because the state "will be the arbiter, the master, of all destinies. It will take a great deal; hence, a great deal will remain for itself. It will multiply the number of its agents; it will enlarge the scope of its prerogatives; it will end by acquiring overwhelming proportions."

The Constituent Assembly decided France must have a strong president—even before it had finished drafting a new constitution! The candidates included a vague idealist, a watered-down socialist, a tough law-and-order man, and Louis Napoleon Bonaparte, who mainly traded on his name as conqueror Napoleon Bonaparte's nephew. Twice Louis Napoleon had attempted to seize power (Strasbourg in 1836 and Boulogne in 1840), for which he spent some time in prison. He wrote an anticapitalist tract and appealed to people who looked back nostalgically on Napoleon Bonaparte's wars. In December 1848, he easily won election as French President.

Legislative Assembly

The Constituent Assembly concluded its business in May 1849 and was succeeded by the Legislative Assembly. Bastiat was elected a deputy. As member of the Budget Commission and vice president of the Assembly's powerful Finance Committee, he urged lower government spending, lower taxes, and free trade.

The following month there was an attempted socialist rebellion which brought widespread support for repressive measures. Again and again, Bastiat voted to defend civil liberties. He opposed a bill banning voluntary labor unions. He voted against imposing martial law. When his socialist enemy Louis Blanc was charged with inciting an insurrection, Bastiat voted to acquit him. Even Proudhon had to acknowledge that Bastiat "is devoted, body and soul, to the Republic, to liberty, to equality, to progress; he has clearly proved that many times with his vote in the Assembly."

Bastiat was discouraged. He remarked that "while the French people have been in advance of all other nations in the conquest of their rights, or rather of their political guar-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

antees, they have nonetheless remained the most governed, regimented, administered, imposed upon, shackled, and exploited of all."

"Here I am in my solitude," he lamented. "Would that I could bury myself here forever, and work out peacefully this economic synthesis which I have in my head, and which will never leave it! For, unless there occur some sudden change in public opinion, I am about to be sent to Paris charged with the terrible mandate of a Representative of the People. If I had health and strength, I should accept this mission with enthusiasm. But what can my feeble voice, my sickly and nervous constitution, accomplish in the midst of revolutionary tempests?"

Diagnosed with tuberculosis, Bastiat needed a lot of rest to preserve his health, but he kept at it. "I rise at six o'clock, dress, shave, breakfast, and read the newspapers," he told Felix Coudroy. "This occupies me till seven, or half-past seven. About nine, I am obliged to go out, for at ten commences the sitting of the Committee of Finance, of which I am a member. It continues till one, and then the public sitting begins, and continues till seven. I return to dinner, and it very rarely happens that there are not after-dinner meetings of Sub-Committees charged with special questions. The only hour at my disposal is from eight to nine in the morning, and it is at that hour that I receive visitors.... I am profoundly disgusted with this kind of life."

The Law

In June 1850, Bastiat returned to Mugron and produced one of his most beloved works, *The Law.* He affirmed the natural rights philosophy, the most powerful intellectual defense of liberty which, except for the American abolitionist movement, had virtually vanished from the English-speaking world. "It is not because men have passed laws that personality, liberty, and property exist," he declared. "On the contrary, it is because personality, liberty, and property already exist that men make laws.... Each of us certainly gets from Nature, from God, the right to defend his person, his liberty, and his property, since they are the three elements constituting or sustaining life, elements which are mutually complementary and which cannot be understood without one another. For what are our faculties, if not an extension of our personality, and what is property, if not an extension of our faculties?.... Law is the organization of the natural right to legitimate self-defense."

Bastiat went on to attack what he called "legal plunder"—laws which exploit some people to benefit politically connected interests. He described how such laws tend to politicize private life: "It is in the nature of men to react against the inequity of which they are the victims. When, therefore, plunder is organized by the law for the profit of the classes who make it, all the plundered classes seek, by peaceful or revolutionary means, to enter into the making of the laws." And once again, Bastiat demonstrated vivid understanding of what socialism was all about: "socialists consider mankind as raw material to be fitted into various social molds ... inert matter, receiving from the power of the government life, organization, morality and wealth."

In *The Law*, Bastiat celebrated "liberty, whose name alone has the power to stir all hearts and set the world to shaking ... freedom of conscience, of education, of association, of the press, of movement, of labor, of exchange; in other words, the freedom of everyone to use all his faculties in a peaceful way; in still other words, the destruction of all forms of despotism, even of legal despotism, and the restriction of the law to its sole rational function, that is, of regulating the right of the individual to legitimate self-defense."

Bastiat plunged into his next work, *Les Harmonies économiques* (*Economic Harmonies*). He expanded on a cherished theme, that free people cooperate peacefully and gain the benefits of voluntary exchange. "Men's interests," he wrote, "left to themselves, tend to form harmonious combinations and to work together for progress and the general good."

The book reflected both his deep pessimism and fervent optimism. "We see plunder usurping the citizens' liberty in order the more

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

readily to exploit their wealth, and draining off their substance the better to conquer their liberty," he wrote. "Private enterprise becomes public enterprise. Everything is done by government functionaries; a stupid and vexatious bureaucracy swarms over the land. The public treasury becomes a vast reservoir into which those who work pour their earnings, so that the henchmen of the government may tap them as they will."

Yet Bastiat never gave up. "Oh liberty!" he cried. "We have seen thee hunted from country to country, crushed by conquest, nigh unto death in servitude, jeered at in the courts of the mighty, driven from the schools, mocked in the drawing room, misinterpreted in the studio, anathematized in the temple. . . . But if thou shouldst surrender in this last haven, what becomes of the hope of the ages and of the dignity of man?" The first volume of *Harmonies économiques* was published in late 1850, and he never finished the work.

By August 1850, Bastiat's tuberculosis worsened. He wrote Cobden lamenting "these unfortunate lungs, which are to me very capricious servants. I have returned a little better, but afflicted with a disease of the larynx, accompanied with a complete extinction of voice. The doctor enjoins absolute silence; and, in consequence, I am about to pass two months in the country, near Paris."

Doctors ordered Bastiat to Italy. In his last letter to Félix Coudroy, from Rome, he wrote: "Here I am in the Eternal City, but not much disposed to visit its marvels. . . . I should desire only one thing, to be relieved of the acute pain which the disease of the windpipe occasions. This continuity of suffering torments me. Every meal is a punishment. To eat, drink, speak, cough are all painful operations. Walking fatigues me—carriage airings irritate the throat—I can no longer work, or even read, seriously. You see to what I am reduced. I shall soon be little better than a dead body, retaining only the faculty of suffering." When he was too ill to write, he asked his friend P. Paillottet to tell Michel Chevalier "how grateful I am for his excellent review of my book (*Harmonies économiques*)."

On Tuesday, December 24, 1850, Bastiat was in bed, and Paillottet remarked that "his eye sparkled with that peculiar expression which I had frequently noticed in our conversations, and which announced the solution of a problem." Bastiat uttered two words: *la vérité* ("the truth"). He took his last breath a few minutes after five in the afternoon. He was only 49. His cousin, the priest Eugène de Monclar, was at his side. Two days later, there was a funeral service at Rome's Saint-Louis des Français church, and he was buried in the adjacent cemetery.

He had done much to expand the ranks of French classical liberals. "The Paris group," as intellectual historian Joseph Schumpeter called them, "controlled the *Journal des économistes*, the new dictionary, the central professional organization in Paris, the Collège de France, and other institutions as well as most of the publicity—so much so that their political or scientific opponents began to suffer from a persecution complex."

Bastiat's Influence on Michel Chevalier

Bastiat's most important single influence was probably on Michel Chevalier. "Until 1845," noted historian J.B. Duroselle, "Michel Chevalier was a moderate protectionist. Then in April of 1846, he published his profession of faith as a free trader in an article in the *Journal des Débats*. How can that evolution be explained? I believe it can be attributed almost entirely to the intellectual influence of Frédéric Bastiat."

In 1852, Chevalier published *Examen du système commercial connu sous le nom de système protecteur* (*Examination of the Commercial System known as Protectionism*). He often drew from Bastiat. For instance, he noted that "To demonstrate the evil effects of protectionism, I will cite an argument by Bastiat. . . . In one of his excellent pamphlets, Bastiat proposed to show that the principle of protectionism and communism is the same."

Chevalier gained influence in the French government and used it to promote free trade. After the 1855 Industrial Exposition, he declared that French industry was so competi-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tive it didn't need tariff protection anymore. He persuaded the Emperor and the Council of State to introduce a free trade bill in the national assembly, but it was shot down. In 1856, Cobden offered Chevalier some encouragement: "I am pleased indeed that you are carrying on the defense of the principles of free trade, for since the untimely death of our dear friend Bastiat, it is you whom we regard as the champion of free trade."

Chevalier began thinking that trade might be liberalized via the French emperor's treaty-making power. In 1859, he visited England to seek Cobden's support for a trade treaty between England and France. He talked with Chancellor of the Exchequer William Ewart Gladstone. Cobden took the lead in negotiations. Although the resulting treaty left many tariffs at 30 percent, it abolished all French import prohibitions, and many tariffs were cut. The treaty marked a momentous breakthrough. Despite the predictable outrage from special interests, France went on to negotiate trade liberalization treaties with Austria-Hungary, German states, Italy, Norway, Portugal, Spain, Sweden, and Switzerland. Moreover, the most-favored-nation principle became widely adopted—whenever a nation negotiates lower import barriers in a new treaty, the benefits will be extended to everyone else with whom that nation has a trade treaty.

Biographer P. Ronce remarked that "If the free trade campaign [which Bastiat spearheaded from 1845–1850] did not bring an immediate result, at least it accustomed people to the idea of free trade, and it brought serious doubts about the benefits of protection; it prepared the way for the 'qualified' free trade system represented by the Treaty of Commerce of 1860."

Richard Cobden offered this tribute: "My enthusiasm for Bastiat, founded as much on a love of his personal qualities as on an admiration for his genius, dates back nearly twenty years.... The works of Bastiat, which are selling not only in France, but throughout Europe, are gradually teaching those who by their commanding talents are capable of becoming the teachers of others; for Bastiat speaks with the greatest force to the highest order of intellects. At the same time, he is almost the only Political Economist whose style is brilliant and fascinating, whilst his irresistible logic is relieved by sallies of wit and humor which makes his *Sophisms* as amusing as a novel. His fame is so well established that I think it would be presumptuous to do anything to increase it by any other means than the silent but certain dissemination of his works by the force of their own great merits."

Bastiat's seven-volume *Oeuvres complètes* (complete works) appeared between 1861 and 1864. There continued to be French interest in classical liberalism, as evidenced by a succession of books about Bastiat: A.B. Belle's *Bastiat et le Libre-Echange* (*Bastiat and Free Trade, 1878*), Edouard Bondurand's *Frédéric Bastiat* (1879), Alphonse Courtois's *Journal des Economistes* (1888), A. D. Fouville's *Frédéric Bastiat* (1888), C.H. Brunel's *Bastiat et la reaction contre le pessimisme économique* (*Bastiat and the reaction against pessimistic economics, 1901*) and G. de Nouvion's *Frédéric Bastiat, Sa Vie, Ses Oeuvres, Ses Doctrines* (*Frédéric Bastiat, his life, work and doctrines, 1905*). The glorious French laissez-faire tradition passed into history with the death of Bastiat's friend Gustave de Molinari on January 28, 1912, although Molinari influenced American individualists like Benjamin Tucker, whose radical ideas persist to this day.

Bastiat in the Twentieth Century

Most twentieth-century academics banished Bastiat's name from serious discussion. Economist Joseph Schumpeter, for instance, wrote that he "might have gone down to posterity as the most brilliant economic journalist who ever lived"—were it not for Bastiat's *Les Harmonies économiques*, which ventured into economic theory. "I do not hold that Bastiat was a bad theorist," Schumpeter sniffed, "I hold that he was no theorist." In their *History of Economic Doctrines*, Charles Gide and Charles Rist remarked that "It is easy to laugh . . . and to show that such supposed harmony of interests between men does not exist."

A few scholars did acknowledge Bastiat's

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

contributions. Economist John A. Hobson called Bastiat "the most brilliant exponent of the sheer logic of Free Trade in this or any other country." The respected economic historian John H. Clapham hailed Bastiat for "the best series of popular free trade arguments ever written ... the text-book for controversialists of his school throughout Europe." The scholarly 11th edition of the *Encyclopedia Britannica* (1913) offered these stirring words: "He alone fought socialism hand to hand, body to body, as it were, not caricaturing it, not denouncing it, not criticizing under its name some merely abstract theory, but taking it as actually presented by its most popular representatives, considering patiently their proposals and arguments, and proving conclusively that they proceeded on false principles, reasoned badly and sought to realize generous aims by foolish and harmful means. Nowhere will reason find a richer armoury of weapons available against socialism than in the pamphlets published by Bastiat...."

In 1946, former Los Angeles Chamber of Commerce General Manager Leonard E. Read established the Foundation for Economic Education and resolved to make Bastiat's work better known. He persuaded economics scholar Dean Russell to prepare a new translation of *The Law*. Over the years, it has sold several hundred thousand copies. Russell went on to earn his Ph.D. under famed free-market economist Wilhelm Röpke at the University of Geneva, writing his dissertation on Bastiat. Russell adapted this into *Frederic Bastiat, Ideas and Influence* (1965), which remains the best single book on him.

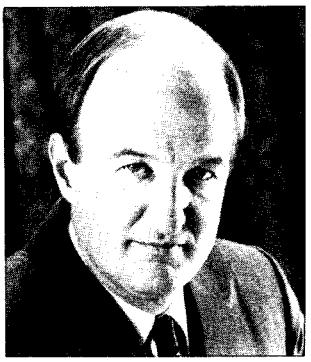
Meanwhile, *New York Times* editorial writer Henry Hazlitt produced a book with the audacious title *Economics in One Lesson* (1946). "My greatest debt," Hazlitt acknowledged, "is Frederic Bastiat's essay, 'What Is Seen and What Is Not Seen,' now nearly a century old. The present work may, in fact, be regarded as a modernization, extension and generalization of the approach found in Bastiat's pamphlet." *Economics in One Lesson* has sold an estimated one million copies.

Recent evidence dramatically affirms Bastiat's most fundamental view that government is the primary source of chronic violence and that a free society tends to be peaceful. Respected political scientist R.J. Rummel, who was nominated for a Nobel Peace Prize, analyzed almost 8,200 estimates of deaths from domestic violence, war, genocide, and mass murder. In his 1995 book *Death by Government*, he reported that throughout history, governments have murdered more than 300 million people—not counting war deaths. In his 1997 book *Power Kills*, Rummel surveyed experience of the past 180 years and reported that he didn't find a single case of war between two democratic governments with limited power. Moreover, there were decidedly fewer civil wars and other types of domestic violence in nations with limited-power democratic governments.

And so that frail Frenchman whose public career spanned just six years, belittled as a mere popularizer, dismissed as a dreamer and an ideologue, turns out to have been right. Even before Karl Marx began scribbling *The Communist Manifesto* in December 1847, Frederic Bastiat knew that socialism is doomed. Marx called for a vast expansion of government power to seize privately owned land, banks, railroads, and schools, but Bastiat warned that government power is a mortal enemy, and he was right. He declared that prosperity is everywhere the work of free people, and he was right again. He maintained that the only meaningful way to secure peace is to secure human liberty by limiting government power, and he was right yet again. Bastiat took the lead, he stood alone when he had to, he displayed a generous spirit, he shared epic insights, he gave wings to ideas, and he committed his life for liberty. He earned his place among the immortals. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
JUNE 1997



Wards of the State?

"Skeptics focus on the drawbacks to [Social Security] privatization . . . its potential for unraveling support for a social safety net."
—*New York Times*, March 21, 1997

"No ordered community has callously allowed the poor and incapacitated to starve. There has always been some sort of institution designed to save from destitution people unable to sustain themselves. As general well-being has increased hand in hand with the development of Capitalism, so too has the relief of the poor improved."
—Ludwig von Mises, *Socialism* (1932)

The recent debates over the future of Social Security and Medicare raise a fundamental question about almost all social programs in industrial nations. Why is the government involved in financing and distributing benefits to virtually *all* its citizens? The original intent of national welfare programs may have been to provide a "social safety net" for the needy, but instead they cover the entire population, rich and poor. (Of course, the only moral safety net is the one that depends on voluntary charity—not coercive transfer payments.) In the industrial world, the vast majority of workers make mandatory payments into a government retirement system, which will provide monthly income to these same workers when they retire. Millions are involved in a government retirement program which significantly restricts their freedom to save and invest on their own. Medicare works the same way. All U.S. workers pay Medicare taxes (now 2.9 percent on unlimited income), qualifying these same workers to receive benefits when they reach 65.

Everybody pays in, everybody benefits, no matter whether he's John Doe or David Rockefeller. That's the underlying philosophy of the modern welfare state.

Defenders of the Welfare State

Such a ubiquitous system leads to a pernicious effect: It makes virtually every citizen a ward of the state. Even the most diehard critic of government becomes a defender of the welfare state if and when he signs up for Medicare and Social Security. There are, of course, those who have the courage to follow the example of Leonard E. Read, FEE's founder, who refused to take a penny of government money. May their tribe increase.

For many years, my uncle, W. Cleon Skousen, author of several conservative best-sellers (*The Naked Communist, The Miracle of America*) and known for his strong anti-government views, said he would never take Social Security. But he could not resist when he turned 65. (Social Security never comes automatically—you must declare your allegiance.)

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, and editor of Forecasts & Strategies, *one of the largest investment newsletters in the country. The third edition of his book* Economics of a Pure Gold Standard *has recently been published by FEE.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

From time to time, I've written in my investment letter arguing that Social Security is a welfare program. I always get several irate letters from subscribers vehemently denying it. "I paid in, I deserve it," they say. "And don't try to change it!"

Forcing all of us to become part of a social welfare system weakens our resistance and our self-reliance. We become benefit-corrupted. Social Security and Medicare are articles of faith—we are "entitled" to them. Is it no wonder that Congress will not touch these entitlement programs?

Recently a broker told me a story that confirmed my fears. One of his clients complained bitterly about efforts in Congress to fix Medicare. "I don't care what they do, but don't touch my Medicare," he yelled. The broker looked at the man's account while he was talking. It was worth $750,000. If anyone could afford his own hospital insurance plan, it was this man.

The Solution

As Milton Friedman wrote over thirty years ago, "The 'social security' program is one of those things on which the tyranny of the status quo is beginning to work its magic. Despite the controversy that surrounded its inception, it has come to be so much taken for granted that its desirability is hardly questioned any longer. Yet it involves a large-scale invasion into the personal lives of a large fraction of the nation without, so far as I can see, any justification that is at all persuasive, not only on liberal principles, but on almost any other."[1]

There's simply no reason why the vast majority of citizens should rely on Social Security for retirement or Medicare for hospital and medical expenses. Most people have enough in company and private pension plans to finance their own retirement. Most have sufficient resources to pay for their own medical bills or buy their own medical policies. Private charity can assist those who cannot help themselves.

An example at our church demonstrates this point: On the first Sunday of each month, each member of the congregation is asked to donate the cost of two meals as a "fast offering" to the poor. The fast offering is used to pay for the welfare needs of members of our congregation needing assistance—food, utilities, and rent if necessary. Each family usually contributes $20 to $50 a month, depending on family size. It's not a burden, but it's sufficient to handle normal emergency needs.

Now suppose our church leaders required all of us to obtain *all* our basic food supplies from the church storehouse. Not only would we have to donate much larger amounts of money to the "fast offering" fund, but we would all demand our fair share of food. It would be a nightmare.

Limiting social programs would not solve our welfare problem, but it would be a step in the right direction.[2] It would sharply reduce our tax burden and give people the freedom to choose where to spend or invest their money. □

1. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), pp. 182–183.

2. Charles Murray has advanced a number of proposals to resolve social problems in his book, *Losing Ground: American Social Policy, 1950–1980* (Basic Books, 1984) and *What It Means to Be a Libertarian* (Broadway Books, 1997).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

BOOKS

What It Means to Be a Libertarian: A Personal Interpretation

by Charles Murray

Broadway Books • 1997 • 192 pages • $20.00

Reviewed by Doug Bandow

Charles Murray has long been one of America's most important social scientists. His book *Losing Ground* touched off a debate over welfare policy by challenging widely held misconceptions of government programs. With *In Pursuit of Happiness and Good Government*, Murray challenged readers to think about the purpose of government.

Now he has written his most radical work yet—*What It Means to Be a Libertarian*. In it, he offers an unapologetic case for liberty. As he explains, "freedom, classically understood, is the stuff by which we live satisfying lives. It is as indispensable to happiness as oxygen is to life. Much of it has been taken from us. We must reclaim it."

Murray's elegantly written book is dedicated to helping us do just that. His premise is simple: "Force is bad, and cooperation is good." The reason force is bad, he explains, is that we own ourselves. The reason cooperation is good is that "a voluntary and informed exchange benefits both parties."

Thus, government should intervene only sparingly. First, to protect people from harm committed by others. Most obviously, this is done through criminal and tort law. Second, to enforce contracts. As Murray explains: "The right of contract and the edifice of law that goes with it is what enables us to do business with people we do not know or have no reason to trust."

Third, government should provide "public goods." He acknowledges that not everyone agrees there are such things and that there is a slippery slope—after all, what government depredation is not proclaimed to be in the public interest? But he devotes a chapter to explaining the "more thoughtful, legal and philosophical tradition" that lies behind the concept. Perhaps the most important characteristic of genuine public goods is nonexclusivity—they cannot be provided to some but not others (e.g., military spending). Moreover, consumption by some does not reduce the supply (say, of clean air) available to others. These tests are relatively uncontroversial.

More problematic is his notion of public goods as functions that yield benefits to the public. Here, he acknowledges, is the slippery slope at its steepest. To set limits, Murray asks three critical questions. Can the good or service be provided by individuals themselves? (Not, notably, will it be provided as quickly or exactly how we prefer.) Next, are we forcing fellow citizens to pay for services that they don't want? And finally, are we expecting them to pay for something that benefits us much more than them?

Even if one wants the government to act, he adds, it should do so at the level closest to the problem. This does not guarantee the protection of freedom, but it preserves a greater opportunity to achieve freedom. As he puts it, "Keeping the definitions as local as possible acts as a brake. When the mistakes become too egregious, people can leave town."

The result might be a government larger than that preferred by some *Freeman* readers, but it would still be dramatically smaller than that which exists today. As Murray points out: "If everyone applied the classic criteria for defining a public good plus the three questions I just listed to the current inventory of government activities, a huge proportion of them would be so disgracefully out of bounds that they would have no chance of qualifying as public goods."

Still, the core of *What It Means to Be a Libertarian* is its discussion of liberty, not government. Freedom has obvious practical advantages, of course, but Murray sees the benefits of liberty running far deeper. People, he argues, "require freedom and personal responsibility to live satisfying lives." That is, the good life requires the liberty to associate with others, choose one's work, own property, and make personal decisions. This is not, he

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

emphasizes, a call to licentiousness or irresponsibility. To the contrary, "freedom and responsibility are as inseparable as opposite sides of the same coin."

Murray does not ignore or sugarcoat the tough side of liberty. Actions have consequences, and free people must bear the consequences of their actions. But Murray's sterling insight is that this accountability is a positive value. As he puts it: "Responsibility is not the 'price' of freedom but its reward. Responsibility is what keeps our lives from being trivial."

This is a critical point. Freedom is not something that can be appreciated and enjoyed only by a person of good character. Rather, freedom is necessary to *become* a person of good character. It is the opportunity to live up to one's potential. This doesn't mean great achievements in the eyes of others. Emphasizes Murray: "Millions of people find satisfaction every day in doing something well by their own standards."

Thus, the benefits of freedom "are embedded in the very meaning of being human." Men and women must have choice, for choice gives them the opportunity to live full lives. For this reason, liberty is a moral imperative. As Murray puts it, "limited government leaves people with the freedom and responsibility they need to mold satisfying lives both as individuals and as members of families and communities."

Murray goes on to sketch his vision of a limited government. At the federal level, he would maintain the Departments of Defense, Justice, and State, as well as the Environmental Protection Agency. He would drop all regulation of employment, products, and services; he would kill agricultural, art, business, energy, housing, and technology subsidies. He would end the great transfer programs: Medicaid, Medicare, Social Security, and welfare.

Nor does Murray shrink from the tough issues: drugs, pornography, and the like. As he explains, "The question of whether people should be allowed to harm themselves is [simple]. *They must*. To think it is right to use force to override another person's preferences 'for his own good' is the essence of the totalitarian personality." At the same time, families and communities must be free to protect themselves, but through voluntary, not coercive, means.

Murray's is a radical vision to be sure, but he senses political stirrings in a libertarian direction. Whether he's right or not will become evident in the years ahead.

What It Means to Be a Libertarian is a gem, a wonderfully written, thoughtful, and accessible argument for freedom. Indeed, at a time when many books catalog the failure of government and the efficacy of markets, Murray emphasizes the central moral role of liberty in the human experience: "only freedom enables human beings to live fully human lives." □

Mr. Bandow, a senior fellow at the Cato Institute, is a monthly columnist for The Freeman.

1997 Index of Economic Freedom

by Kim R. Holmes, Bryan T. Johnson, and Melanie Kirkpatrick

The Heritage Foundation and Dow Jones & Company • 1997 • 486 pages • $24.95

Reviewed by George C. Leef

This is one of the most useful reference works that an advocate of economic freedom can own. What the authors have done, continuing and expanding on a project begun in 1994, is to provide a detailed look at the economies of 150 countries of the world. Only a small number, mainly in Africa and southwestern Asia (recently independent nations formerly part of the Soviet Union), are not analyzed.

The authors have compiled data allowing them to assess each nation's degree of economic freedom in ten categories: trade policy, taxation, government intervention, monetary policy, capital flows and foreign investment, banking policy, wage and price controls, property rights, regulation, and black markets. Based on their analysis, they then categorize each nation as being free, mostly free, mostly unfree, or repressed. Color maps enable the reader to see at a glance where freedom is to be found and where it is not. Alas, you don't

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

see much blue (representing "free" nations) on the maps. Only eight nations merit that designation. More than half (78) are classified as mostly unfree or repressed.

That most of the world has little or no freedom is unsettling if not startling news. Also disturbing is a trend identified by the authors: "Wealthy and economically free countries tend to reintroduce restrictions on economic freedom over time. As they become wealthy, countries begin adding welfare and other social programs that were not affordable when they were poorer. Thus, after they have become economically 'liberated,' countries like Germany and France tend to fall back down the scale of economic freedom, getting worse scores than newly emerging free economies like Hong Kong or Singapore" (p. xiv).

We know that this has been happening in the United States for many decades. (The United States now ranks fifth—tied with Switzerland—in the overall ranking. The pre-New Deal United States would certainly have been number one.) The authors are correct in saying, "the seeds of destruction can exist in the fruits of success." Prosperity has usually brought along with it politicization of society that throws economic progress into reverse. Believers in freedom everywhere need to pay attention to this phenomenon and think ahead to the problem of preserving economic freedom once it is attained.

The major, inescapable conclusion of the *Index* is that there is a direct relationship between prosperity and the degree of economic freedom. The authors present the "Curve of Economic Freedom," plotting nations on a graph, where the vertical axis is the degree of freedom and the horizontal axis is the per capita Gross Domestic Product. The resulting curve slopes upward to the right—that is, high income correlates with freedom, low income correlates with repression. You find *no* nations that are free, yet poor, and you find *no* nations that are repressed, yet wealthy. If anyone can think of a way to get this information into classrooms across America, please speak up.

The country-by-country analyses are very interesting. For example, which of the nations that were formerly part of the Soviet Union's "prison house of nations" have done the best at throwing off the yoke of statism and establishing the conditions necessary for economic growth? The Czech Republic has done the best (tied for 11th freest; the Slovak Republic, its former partner in nationhood, is much less free, at 75th), followed by Estonia, which at 25 is freer than France, at 31. Russia has done poorly in making the transition from communism (ranking 115th), but some of its old allies have done even worse. Ukraine, for example, ranks 123rd, Belarus 129th, and Azerbaijan a repressive 142nd.

I hope The Heritage Foundation and the *Wall Street Journal* will keep this project up to date. It will be useful to be able to look at changes over time. It might, I believe, help to demonstrate the Hayekian point that once governments start interfering with freedom, they are apt to continue to do so.

Someone should undertake a similar study of the United States. It would be nice to have an *Index of Freedom in the United States* on the shelf next to this excellent volume. □

Mr. Leef is the book review editor of The Freeman.

The Welfare State: No Mercy for the Middle Class

by John McKay

Liberty Books • 1995 • 298 pages • $22.00

Reviewed by Murray Sabrin

If policymakers want to learn about the debilitating effects of the welfare state, John McKay's readable and passionate defense of limited government is a good place to begin. McKay's book is sprinkled with the kind of rhetoric that is bound to drive "liberals" (I prefer "statists") up a wall. For example, on page three he states: "An entitlement beneficiary is a person or special interest group who didn't earn your money, but demands the right to take your money because they *want* it" (original emphasis). On page 14, McKay puts a stake in the heart of so-called compassionate proponents of the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

welfare state: *"It's easy* to *be noble with other people's money"* (original emphasis).

In *The Welfare State,* McKay tackles such issues as discrimination, regulation, health care, taxation, and entitlements. He shows how the free market has been hampered by government intervention, and makes the moral case for free enterprise an integral part of his argument. McKay sums up his case against the welfare state with the following: "Entitlement programs violate our property rights. They confiscate what we earn and give our money to total strangers without our consent. Government assumes it has the right to steal, because it does so by majority rule. It does not have that right. As individual citizens, we don't have the right to steal from our neighbors. We therefore can't delegate such a right to a government who is simply our agent."

To end the welfare state McKay proposes a constitutional amendment that would protect individual rights and restrict government depredations on the American people. In addition, he virtually calls for a tax-free America by advocating fees to be paid by citizens to maintain the courts, police, and armed forces.

Overall, *The Welfare State* is a welcome addition to the growing literature of freedom. However, some repetition of phrases and statements should have been edited for redundancy. In addition, the factual material is abundant, but one error stands out; the population of Canada is cited on page 123 as around 15 million. According to the latest data, our neighbor to the north has a population of approximately 25 million. Also, McKay blames the welfare state for higher prices. Yes, if we assume the monetary authorities crank up the printing presses. A brief overview of the welfare state's necessary ally, the central bank—our Federal Reserve—would have been welcome.

The welfare state is in retreat around the world—ideologically, financially, and culturally. Unfortunately, U.S. proponents of the entitlement philosophy will be fighting tooth and nail to postpone the inevitable. If the Berlin Wall can come down, if the Soviet Empire can disappear, then America's welfare state is living on borrowed time.

Leonard Read, Ludwig von Mises, Henry Hazlitt, Murray Rothbard, and the other giants of liberty are not alive to see the vindication of their lifetime work. But today's cohort of conservatives and libertarians are gallantly carrying the torch of liberty into the 21st century. A free and prosperous America is on the horizon. John McKay's *The Welfare State* will help us reach that destination. □

Dr. Sabrin is professor of finance, Ramapo College of New Jersey, and author of Tax Free 2000: The Rebirth of American Liberty.

The Political Racket: Deceit, Self-Interest and Corruption in American Politics

by Martin L. Gross

Ballantine Books • 1996 • 263 pages • $12.50 paperback

Reviewed by William H. Peterson

Martin Gross, whose title here tells it all, sifts through a lot of political dirt. He names names—including ethically challenged politicians and special-interest PAC contributors.

Mr. Gross also devotes many pages to the problem of pork—Congressional vote-trading on federal spending projects for favored spots and favored Congresspeople, including:

- $3 million for an Orlando, Florida, streetcar project
- $5 million for a *third* golf course at Andrews Air Force Base near Washington, D.C.
- $96 million for a courthouse in Portland, Oregon
- $120 million for a courthouse in Phoenix, Arizona

Impressive stuff all right, but if anything the Gross work is too parochial, too present-minded. Yes, smelly deals are cut all the time in that den of iniquity, Washington, D.C. But couldn't that charge also be levied against Ottawa, Rome, Moscow, Nairobi, Brasilia, and virtually all other capitals? Or, for that matter, against Ancient Athens and Ancient Rome?

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Hear Socrates, for example, c. 399 B.C.: "If I had engaged in politics, O men of Athens, I should have perished long ago, and done no good either to you or to myself." Or hear Quintus Cicero, author of *Handbook on Politics* (c. 50 B.C.), which he prepared as an electioneering aid for his brother, Roman senator Marcus Cicero: "One has great need of a flattering manner which, wrong and discreditable though it may be in other walks of life, is indispensable in seeking office. Human nature being what it is, all men prefer a false promise to a flat refusal."

I also wonder about the author's multifaceted solution, what he calls a "Middle-Class Manifesto," to America's political mess. Some of his ideas merit consideration—for instance, term limits, a balanced budget amendment, elimination of $86 billion in annual corporate welfare through 127 federal subsidies to business, cutting back one-third of the federal civilian labor force to save $50 billion a year, and revamping Social Security along the privatizing lines of Chile with individual retirement accounts.

But Mr. Gross gums up a generally sensible book by complaining about high CEO salaries of "$4, $5, even $10 or $15 million a year." CEO compensation is not a political problem. It is not a problem at all and bringing it up just encourages the redistributionists who constantly play on envy. He also objects to imports from "low-wage" countries such as Mexico and China, and thinks the United States should restrict Japanese imports "at exactly the same level they do ours." The ideas of consumer sovereignty and unilateral free trade seem foreign to him.

Still, this informative and provocative work can instruct the wary reader who is so often the fellow pushed out of the loop, who is forced to pick up the tab for the Interventionist State, busily dispensing concentrated benefits over diffused costs. Yale economist William Graham Sumner in 1883 called this fellow the Forgotten Man. I call him Every Man. □

Dr. Peterson is Heritage Foundation adjunct scholar and Distinguished Lundy Professor Emeritus of business philosophy at Campbell University in North Carolina.

The Road to Hell

by Michael Maren

The Free Press • 1997 • 302 pages • $25.00

Reviewed by Laurence M. Vance

The old cliché says: "The road to hell is paved with good intentions." That is, the best of intentions often result in the worst of consequences. Yet, although everyone would certainly agree that feeding starving children is one of the best intentions that anyone could have, few would ever imagine that such noble humanitarianism could have disastrous consequences.

The Road to Hell, by Michael Maren, is a brutal indictment of the whole business of humanitarian intervention and the industry of aid. And for most of the participants it is just that: a business. Just as war is big business for defense contractors, the purveyors of food to starving children likewise gorge themselves at the public trough.

Maren is well qualified to make such an indictment, having spent much of the last 20 years in Africa both as an aid worker and a journalist. And just as Maren has written for *Harper's, The Village Voice,* and *The New Republic*—not exactly known for their advocacy of free markets and limited government—so *The Road to Hell* is not a polemic against the welfare state and foreign aid. But therein lies the strength of the book. It is a brutally honest personal account of what the book's subtitle calls "the ravaging effects of foreign aid and international charity."

The focus of the book is on Africa in general and Somalia in particular. According to Maren, the countries of Africa are much worse off today than when he first arrived in Kenya as a Peace Corps worker in 1977. In fact, after billions of dollars were dumped into Africa, the countries that received the most aid "have slid into virtual anarchy." So if the problem is not money, then what is it? Maren hits the nail on the head when he relates that "famines always occur in authoritarian states, when the government mismanages the economy." So, as usual, corrupt, heavily bureaucratic governments are the root

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of the problem. This should come as no surprise to proponents of limited government and students of history. For just as the War on Poverty in the United States ended up subsidizing illegitimacy, so foreign aid creates chronically hungry countries that are dependent on foreign food.

In recounting his experiences as an aid worker in Africa, Maren makes some statements that will astound many who have answered heart-tugging appeals to sponsor children. He claims that humanitarian aid "could be positively evil" and that it "was probably killing as many people as it was saving." He asserts that 90 percent of all the food aid handed out is not for starving people at all—it is for "sustainable development." "Food aid," says Maren, "attracts people to refugee camps, where they die from dysentery or measles or other diseases they wouldn't have contracted in the bush." And many times the starving people don't get any food at all.

So what happens to all the donated food? Maren notes several destinations. The first is the corrupt governments of these countries. He claims to have seen military warehouses "packed to the ceilings with refugee food." Donated food, complete with "NOT TO BE SOLD" signs, was openly sold by the government for a huge profit. But even when food slipped through the hands of the government it still never made it into the mouths of starving refugees. Maren contends that many refugees got so much food that they were able to sell it. In fact, several refugees actually opened shops to market the food to merchants from the city of Mogadishu.

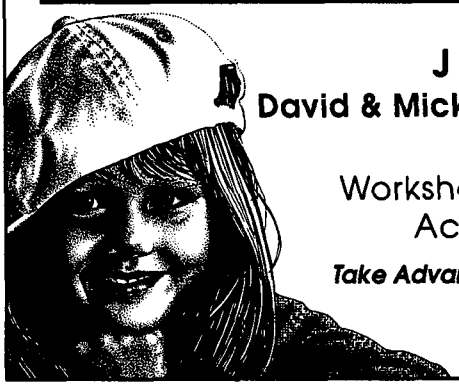
In *The Road to Hell,* Maren boldly names the groups that have contributed to the paving of the road. Big names like World Vision, Childreach, Save the Children, Christian Children's Fund, UNICEF, CARE, Catholic Relief Services, and USAID. Indeed, Maren holds nothing back, indicting farmers, grain companies, the news media, the U.N., agribusiness giants, the Peace Corps, the USDA, and our spendthrift congressmen—even the shippers that transport food overseas. Throughout the book Maren makes the case that "aid distribution is just another big, private business that relies on government contracts."

The Road to Hell is the story of corruption, murder, theft, vandalism, lies, and greed—all a direct result of foreign aid and international charity. It is certain to forever change the way we look at pictures of starving children. □

Mr. Vance is an instructor at Pensacola Bible Institute and a freelance writer living in Pensacola, Florida.

***The Link* "KID Comfortable" Homeschool Conference**

June 21-22, 1997 • Cal Lutheran University (CLU)
Thousand Oaks, California



Speakers/Presenters:
John Gatto
David & Micki Colfax • Pat & Day Farenga
& Many Others

Workshops • Panel Discussions
Activities for Children

Take Advantage of our pre-registration rates!

-For Information Call-
The Link ☎ **(805) 492-1373**

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Back in Print!

GOVERNMENT—AN IDEAL CONCEPT

by Leonard E. Read

New Introduction by Hans F. Sennholz

To Leonard Read, government was neither a manager of economic activity nor an almoner of gifts to the people, but a necessary instrument of social order. Its only basis is justice, not pity. Government is represented by agents who are expected to enforce and defend man's natural rights and protect him against wrongs of his fellowmen. But these agents should not do what the individual must not do. The agents of government should be men and women of integrity. Unfortunately, Read observed, political office tends to rob a person of modesty, humility, and integrity, which make it advisable never to accept a political office.

Leonard Read's eloquent discussion of the nature of government and a new beginning in freedom will endure as a principled work of great value. It is a guidepost for readers seriously interested in the limits of public regimen and the cause of liberty.

152 pages, indexed, paperback **$12.95**

A few years before Leonard E. Read authored this book, he created The Foundation for Economic Education. He was convinced that every generation must defend its freedom anew against the intellectual forces that seek through ever new devices to enslave it. Therefore, he dedicated his great strength and ability to the study and dissemination of freedom ideas. He managed the Foundation from its beginnings in 1946 until his death in 1983.

The power of one.

"There is really nothing that can be done except by an individual.
Only individuals can learn.
Only individuals can think creatively.
Only individuals can cooperate.
Only individuals can combat statism."

—LEONARD E. READ
founder of FEE

And only your individual help can make **The Freeman** grow! Enter or extend your own subscription, or send a sample copy to a friend, neighbor, or business associate. Do it today!

Call (800) 452-3518 for details.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ECONOMIC AFFAIRS

the journal of the IEA
edited by Colin Robinson

In recent issues:

Labour Markets, edited by J.R. Shackleton, with contributions from John Philpott, Patrick Minford, Frank Field, Paul Ormerod, Peter Robinson, and Shirley Dex. (Spring 1996)

European Monetary Union, edited by Colin Robinson, with contributions from David Currie, Patrick Minford, Roland Vaubel, Pascal Salin, Anna J. Schwartz, and Bernard Connolly. (Summer 1996)

Foreign Aid: Who Needs It?, edited by Robert Whelan, with contributions from Deepak Lal, Sir Alan Walters, Karl A. Ziegler, Peter Boone, and Evan Davis. (Autumn 1996)

International Trade and the Environment, edited by Julian Morris, with contributions from Timothy M. Swanson, N.R. Evans, James M. Sheehan, Colin Hines, and Fred L. Smith, Jr. (Winter 1996)

Forthcoming:

The Minimum Wage Debate	**June 1997**
Economics of Sport	**September 1997**
Defence Economics	**December 1997**

Published four times a year by
Blackwell Publishers Limited
108 Cowley Road, Oxford OX4 1JF, UK *and*
350 Main Street, Malden, MA 02148, USA

1997 Subscription prices are as follows:
(Canadian customers/residents please add 7% for GST)

	Europe	N.America	Rest of World
Institutions	£50.00	US$87.00	£55.00
Individuals	£15.00	US$35.00	£20.00

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

New from FEE !

SUBSURFACE WEALTH

The Struggle for Privatization in Argentina

By Guillermo M. Yeatts

In 1865, only seven years after the oil business was born in Titusville, Pennsylvania, the first attempt at oil exploration was made in the province of Jujuy, Argentina. In contrast with the extraordinary development and growth that the U.S. oil industry experienced, early attempts by oil pioneers in Argentina were met by a brick wall—public property of the subsurface and the resulting state intervention in the industry. In the United States, the prospect of striking oil fueled the dreams and guided the actions of thousands of landowners, investors, and independent prospectors. The oil business quickly expanded in the United States, bringing prosperity to apparently barren and desert areas. No development of this sort took place in Argentina. Public ownership of the subsurface discouraged all incentives for risk-taking, investment, and technological innovation. The regions with oil potential were doomed to oblivion and poverty; their inhabitants migrated to more prosperous areas.

This book exposes and analyzes the institutional framework that restrained the development of the oil industry in Argentina, and develops a proposal for radical change—giving surface owners title to the subsurface.

Guillermo M. Yeatts was born in Buenos Aires, Argentina, and obtained his B.S. in Finance and his M.A. in Economics from New York University. He has completed the OPM Program at Harvard University Graduate School of Business Administration in Cambridge, Massachusetts. He is presently the Chairman of Phoebus Energy Ltd., which controls Sol Petroléo S.A. in Buenos Aires, a refiner and marketer of oil products in Argentina. Mr. Yeatts is a founding member and a Director of ESEADE, Graduate School of Business Administration and Economics, established in Buenos Aires in 1978. He is a Trustee and member of the Board of Directors of the Northlands primary and secondary school in Buenos Aires, President of FEEL (Foundation for Energy Studies in Latin America), and member of New York University Business School Global Advisory Board.

Published by
The Foundation for Economic Education, Inc.
30 South Broadway, Irvington-on-Hudson, NY 10533

ISBN 1-57246-075-X • 232 pages • paperback $14.95
Visa and MasterCard orders: 1-800-452-3518

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"Power is authority and makes for more authority. It is force and makes for more force. [A]mbitious wills, drawn by the lure of Power, expend unceasingly their energies in its behalf that they may bind society in an ever tighter grip and extract from it more of its resources."

—BERTRAND DE JOUVENEL, *On Power*

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED